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Cloudy skies at Farnborough

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'We have to have peace'

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How to shorten airport immigration queues

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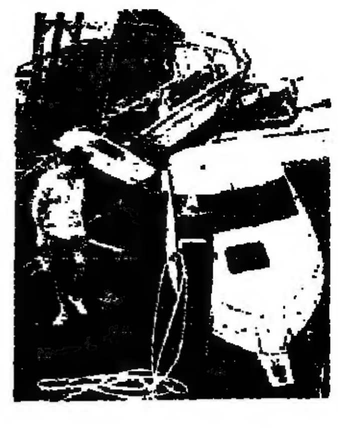

NEWSPAPER of THE YEAR

FINANCIAL TIMES

Monday September 7 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

Bosnian Serbs get deadline for heavy weapons

International mediators have given Bosnian Serbs until next weekend to place their heavy weapons around four key Bosnian cities under UN control. The mediators, Cyrus Vance and Lord Owen, who are chairing a new international peace conference on the former Yugoslavia, issued their statement in Geneva. Page 3

Eurofighter rescue bid: Changes in the European Fighter Aircraft programme, including a switch to one engine instead of two, are being considered by its industrial partners in an attempt to rescue the £20bn ($39.8bn) project. Page 14; Airbus delays launch, Page 5

Eurotunnel and contractors building the Channel tunnel appeared unlikely to beat a deadline to resolve their latest financial crisis by today. Page 14

Push for federalism: South Africa's ruling National party is hosting a conference of right-of-centre political parties in an attempt to build a united front behind the demand for a federal constitution for post-apartheid South Africa. Page 3

Immigration agreement: Airline passengers flying to the US from London's two main airports will clear American immigration before leaving Britain following a UK-US agreement to ease border controls. Page 14

Israeli budget attacked: Israel's central bank has delivered a sharp attack on the Labour-led government's 1993 $39.8bn budget plan, saying the proposals lacked the right measures to stimulate growth and employment in the immigration-burdened economy. Page 6

European Monetary System: The D-Mark remains at the top of the grid, following Friday's poor employment figures in the US which triggered heavy investment in the German currency. The D-Mark, the hardest currency in Europe, is normally at the centre of the table, allowing the monetary policies and exchange rates of other currencies to be altered around it. Its strong position is putting pressure on other member currencies, with sterling still firmly at the bottom of the table. But the UK government's decision last week to buy pounds on the foreign exchanges by means of an Ecu10bn ($14.3bn) loan has eased the pound's differential against the strongest currencies in the system. Currencies, Page 31

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling, the Spanish peseta and the Portuguese escudo operate with 6 per cent fluctuation bands.

GPA shake-up: GPA, the world's largest aircraft leasing group, announced a wide-ranging management shake-up following its aborted stock market flotation in June. Page 15

Baltic states loan: The European Community intends to provide a $300m medium-term loan to help the three Baltic republics of Latvia, Lithuania and Estonia reduce their balance of payments deficit. Page 2

Mediobanca, Italy's leading merchant bank, recorded a 20 per cent increase in annual net profits to L262.1bn ($244m) from L220.4bn previously, after a reduction in the provision to cover loans at risk and write-downs in the bank's share portfolio. Page 17

Communal war erupts: Tajikistan, the former Soviet Union's poorest republic, is being torn apart by communal warfare and political and economic chaos, with independent armies forming in the north and south as central authority crumbles. Page 3

Reactor closed: Lithuania has closed a faulty nuclear reactor near the border with Belarus, the Finnish Centre for Radiation and Nuclear Safety said. There was no radioactive leakage. The station, which generates about half of the Baltic state's power, is the largest of the 16 nuclear plants in the former Soviet Union using reactors similar to those at Chernobyl, scene of the world's worst nuclear accident in 1986.

German racist attacks continue: Racist rioters clashed with police in the eastern town of Eisenhüttenstadt, scene of rightwing attacks on a refugees' hostel, and vandals knocked down gravestones at a Jewish cemetery in Berlin as racist assaults in both east and west Germany, mainly by rightwing groups, continued for the third successive weekend.

Tourists die in coach crash: Twenty-one people were killed and 30 injured when a tourist coach carrying mainly elderly tourists collided with a car and rolled on to its side on a German motorway near the Black Forest.

Doubts surface over European Community efforts to stabilise financial markets

EMS faces fresh test of credibility

By Peter Norman and Andrew Hill in London

THE European Monetary System faces a new test of credibility this week after the strongest reaffirmation to date of existing exchange rates by European Community governments.

Doubts surfaced yesterday as to whether the latest effort by EC finance ministers to buttress the *EMS* and calm financial markets would be effective after Mr Helmut Schlesinger, the Bundesbank president, appeared unconcerned over the outcome of informal weekend talks in Bath.

Discussions among ministers and central bankers, dominated by recent currency turmoil and growing signs of weaker EC economic activity, secured a pledge from the Bundesbank that it would not increase its interest rates "in present circumstances". However, Mr Schlesinger, speaking yesterday on *BBC* radio, declined to give explicit support to a statement issued by Mr Norman Lamont, the UK chancellor of the exchequer, that *EMS* countries would not realign their currencies.

Mr Lamont, as chairman of the meeting, announced that the ministers had decided:

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- To reaffirm their August 28 agreement not to realign the EMS currencies in the exchange rate mechanism.
- To intervene if needed in exchange markets, "exploiting as fully as necessary the means and instruments" provided under the EMS.
- To emphasise the importance of EC member states implementing economic policies to curb budget deficits and inflation.
- To take advantage of any opportunity to reduce interest rates.

Speaking on Saturday after nine hours of hard bargaining, including concerted pressure on Germany to cut interest rates, Mr Lamont said he hoped that the Bundesbank's promise would contribute to stability on exchange markets.

Officials believe it could change expectations in financial markets by making clear that the next move in German rates would be downwards. But Mr Lamont made clear that Britain would raise its interest rates if necessary to safeguard sterling.

Mr Michel Sapin, French finance minister, said all countries agreed they should move to lower interest rates. "That's a great novelty," he said. He stressed that EC central bankers, who are in Basle today and tomorrow for regular monthly meetings at the Bank for International Settlements, have "immense means" at their disposal to steady currencies. Mr Carlos Solchaga, Spanish finance minister, said: "We are betting that the results of the meeting will give enough confidence to markets to re-establish stability."

However, on the BBC's World this Weekend yesterday, the Bundesbank's Mr Schlesinger appeared to cast doubt on his commitment to ruling out a realignment of currencies in the European ERM. He told his interviewer that the question went to his heart and the answer was therefore something which he would not make public.

Mr Paul Chertkow, head of Global Currency Research at UBS, the Swiss bank, said: "Not enough has been done." He added that European central banks

Continued on Page 14

Major to spell out EC tasks if France votes No

By Alison Smith in London and William Dawkins in Paris

MR JOHN MAJOR will today emphasise the scope for further development within the European Community even if the result of the French referendum is a No to the Maastricht treaty on European union.

The prime minister will restate his commitment to the agreement as the best way forward for the Community and his desire to see it ratified. He will also use a speech at a London conference on the future of the EC to highlight the other ways, such as inter-governmental co-operation, in which links between the 12 EC members can be strengthened.

The speech is also likely to seek to underline commitment to the exchange rate mechanism. UK ministers are keen to ensure that the ERM survives in the long term as well as enduring whatever disturbances in the markets would follow a No vote.

Mr Major will spell out the tasks that remain on the EC agenda, irrespective of Maastricht. These include progress towards enlargement, changes to the community's financing and decision-making arrangements, and the completion of the single market.

"If the French vote No, the world would not come to an end," one minister said yesterday.

Mr Valéry Giscard d'Estaing, former French president, meanwhile warned both sides in the referendum campaign against playing on fears of German domination. That was "a grave error" which "can do us great harm", he said on television, urging a Yes vote in the September 20 referendum.

Mr Giscard d'Estaing's appearance, following a television appeal last Thursday by President François Mitterrand, came as another poll showed a small advance in the proportion of voters – 56 per cent – in favour of monetary and political union.

Yesterday's poll, by Ipsos for Journal du Dimanche, showed a 1 percentage point advance in the proportion of Yes voters from a CSA poll on Friday. However, the outcome is still in the balance because 24 per cent of the total polled by Ipsos did not know or did not indicate which way they would vote – a level in line with most polls taken since Mr Mitterrand announced a referendum in early June. The 56 per cent majority in yesterday's survey is simply a proportion of those who stated an opinion.

Mr Giscard d'Estaing, president of the centre-right UDF opposition party,

stressed that the treaty could not be renegotiated in the event of a No vote on September 20. It was a painstakingly fought compromise between the 12 EC governments and renegotiation was "impossible".

Lex, Page 14

Former French Socialist prime ministers Laurent Fabius (Right) and Pierre Mauroy at a rally campaigning for a Yes vote in the French referendum on European union on September 20

Kohl moves to end divisions on unification costs

By Quentin Peel in Bonn

CHANCELLOR Helmut Kohl last night summoned his German coalition partners for top-level talks to reconcile deep divisions in the government, primarily about how to finance the ballooning costs of German unification.

The meeting follows an upsurge in criticism of Mr Kohl's leadership from within his own Christian Democratic Union, and a rash of speculation about the need for a "grand coalition" of Christian Democrats and Social Democrats (SPD) to handle the country's gathering problems.

The talks, expected to last late into the night, were specifically intended to co-ordinate the coalition position before the Bundestag reconvenes today after the summer break and is plunged straight into the annual budget debate tomorrow. The leaders of the three ruling parties were also likely to discuss the malaise in their coalition, which includes the Free Democrats (FDP) and Bavaria-based Christian Social Union as well as the CDU.

The coalition partners have come to a belated recognition in the summer that Germany's yawning fiscal gap, which has grown as a result of transfers to east Germany running at a net DM150bn a year, must be reduced. They cannot agree how.

The parliamentary leadership of the CDU, headed by Mr Wolfgang Schäuble, has proposed a compulsory bond or levy to be imposed on the better paid to help finance east German recovery – an idea which may well appeal to the SPD, but is not wholly supported in the CDU.

The minority CSU, headed by Mr Theo Waigel, the finance minister, is adamant that no new measure should be compulsory. Mr Waigel has suggested a voluntary "Germany bond" which would earn a low interest rate, tax free. The FDP, led by Mr Otto Lambsdorff, is in the middle.

Even if the party leaders could agree, it is unclear how a compulsory bond could be introduced. Mr Kohl will do anything to avoid the impression that he is considering a new tax to finance unification - something he and Mr Waigel have repeatedly said was out of the question.

There has been growing criticism of Mr Kohl within the CDU, as a result of the coalition's uncertain handling of the outbreak of extreme rightwing

Continued on Page 14

Ford invests $1bn in engine plant

By Kevin Done, Motor Industry Correspondent, in London

FORD, the US carmaker, is to invest more than $1bn for development and production of a new small engine range in Valencia, Spain.

The new plant, which will have capacity to build up to 550,000 engines a year is expected to start production in May 1995 on an existing site, with full production to be reached in 1997.

The engines will be used mainly in Ford's Fiesta and Escort cars and will replace the group's HCS small engine range, also produced at Valencia.

The investment is a further step in Ford's ambitious plan to replace most of its European engine range by the mid-1990s and follows the launch late last year of its medium-sized Zeta engines, produced at its Bridgend plant in south Wales, where about £300m has been invested.

The $2bn Zeta engine programme is for a 1.6-2.0 litre family of engines. They will also be produced in Cologne, Germany, and in Mexico. In Europe they are already fitted in the Escort/Orion and will also power the replacement car for the existing Sierra to be launched next year.

The Sigma engine to be built in Valencia, will be a four cylinder, 16 valve, twin-cam power unit, with an aluminium block and cylinder head. It will be a range of 1.0-1.4 litre engines.

The new engine has been designed and developed for Ford by Yamaha of Japan, which won a contract for the full development of the engine up to the prototype stage. Yamaha is responsible for about a third of the total development work on the engine.

This is the first time Ford of Europe has contracted out such an important element of its mainstream engine development programme to an outside engineering company and the first time it has turned to Japan.

Ford says the scale of its existing commitments to develop new engines made it impossible to develop the entire Sigma engine project with its own engineering resources in Europe. Ford itself will carry out the testing, evaluation and production engineering for the engine.

It has previously indicated that it could invest in a second production phase for the Sigma engine with an additional capacity for 300,000 engines a year, which would probably be built at Valencia or at Bridgend.

Ford's engine programme is being drastically updated, however, and it is also working to develop the Orbital two-stroke engine as an alternative unit to power small cars, including a possible mini-car smaller than its Fiesta supermini.

Austria	Sch30	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1.250	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Bulgaria	Leva25	Indonesia	Rp3800	Nigeria	Naira28	Sweden	SKr14
Cyprus	C£1.00	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Czech	Kcs35	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Denmark	DKr14	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
Finland	FM10	Kuwait	Fils.600	Poland	Zl 18,000	Turkey	L6000
France	FFr8.50	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00
Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Greece	Dr260						

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Bundesbank allows flicker of hope

The Bath meeting may mark beginning of the end of Europe's high interest rates, writes Peter Norman

WITH any luck, the meeting last weekend of European Community finance ministers in Bath will mark the beginning of the end of the present protracted period of high interest rates in Europe.

Mr Norman Lamont, the UK chancellor, who chaired the meeting, altered the nature of interest rate expectations on financial markets by obtaining the Bundesbank's assent to a statement that it "in present circumstances has no intention to increase rates".

Fears of an increase in the internationally important German Lombard rate from its current 9.75 per cent level have preyed on financial markets ever since the Bundesbank increased its discount rate by 0.75 percentage points to 8.75 per cent in mid-July. By putting on record its intention not to increase rates, the Bundesbank should ensure that expectations of future German rate movements in Europe will be downwards.

Big question marks still hang over the timing of a relaxation in German monetary policy. And the Bundesbank pledge does not exclude the possibility of other nations having to raise rates in the event of external shocks such as a further downwards spiral of the dollar or a French No vote in the country's September 20 referendum on the Maastricht treaty.

But the UK chancellor, underlining it was "the first time" the Bundesbank had committed itself "openly and publicly" not to raise rates, said he regarded the promise as "a significant outcome" of the talks. Mr Michel Sapin, the French finance minister, said he detected "a new spirit" in the talks. "The outlook is for lower interest rates. The Bundesbank is no longer in a frame of mind to raise rates," he said.

It was an unexpected result won only after some tough talking. The Bath meeting, which opened under the cloud of serious dollar weakness and renewed strains in the European exchange rate mechanism last Friday, was supposed to give the 12 finance ministers and central bank governors a chance to discuss such issues as the future work of the EC economic and finance ministers' council; the state of negotiations in the Uruguay Round of trade liberalisation talks, and monetary relations between non-ERM countries and the EC member states in the run-up to European economic and monetary union.

These agenda items were scrapped and the talks, which overran their planned duration by more than an hour, concentrated on the state of the European economy and the strains in the ERM.

Instead, Germany came under "colossal pressure" to cut interest rates, according to Mr Anders Fogh Rasmussen, the Danish economy minister. The pressure from the 11 countries was "far more than I've ever experienced," he said.

The plan for Germany's EC partners to mount a strong campaign to persuade Mr Theo Waigel, the German finance minister, and Mr Helmut Schlesinger, the Bundesbank president, of the need for lower European interest rates at a time of economic slowdown in Europe was hatched by Mr Lamont and UK officials after an informal dinner for the ministers on Friday night.

Huddled before an open fire in a secluded back room of Bath's Royal Crescent Hotel, the UK delegation decided to seek the support of France, Spain, Italy, Ireland and Denmark for concerted pressure on Germany.

UK officials hatched a plan as they huddled before an open fire

Little wonder Mr Waigel looked uncomfortable on Saturday as he protested he was not going to be "put in the dock" over Germany's interest rate policy. As usual, Mr Waigel put up a spirited defence of Germany's position. People should remember how they profited from the boom after German unification, he said. Criticism of Germany's fiscal policy was unwarranted. His budget proposals for 1993 would be the most stringent of any in the EC, he promised.

After the meeting there was disappointment Germany had not promised to lower interest rates. But such a pledge was never in the realm of realistic expectation. Setting interest rate policy is the prerogative of the independent Bundesbank's decision-making central council, in which Mr Schlesinger sits only as a *primus inter pares*. He therefore anticipates its decisions at his peril.

The Bundesbank president was able to indicate that German interest rates had peaked because that was one of the conclusions the council reached last Thursday in its regular fortnightly meeting.

Although Mr Lamont's statement, which said the Bundesbank would be "watching closely the further development of the economy" appeared to suggest the German central bank could be poised to cut rates in the event of a serious economic downturn in Germany, Mr Schlesinger was predictably guarded about the interest rate outlook.

He insisted that there was no scope for a reduction in German short-term interest rates as long as Germany's money supply continued to grow at its current rapid pace and there was no clear easing in inflationary tensions.

But his willingness to agree to the "no increase" statement marked something of a change of heart at the top of the Bundesbank. Before the July discount rate increase senior Bundesbank officials were complaining that the bank had missed an opportunity to clamp down hard on inflation by not lifting the Lombard rate above 10 per cent during the previous winter.

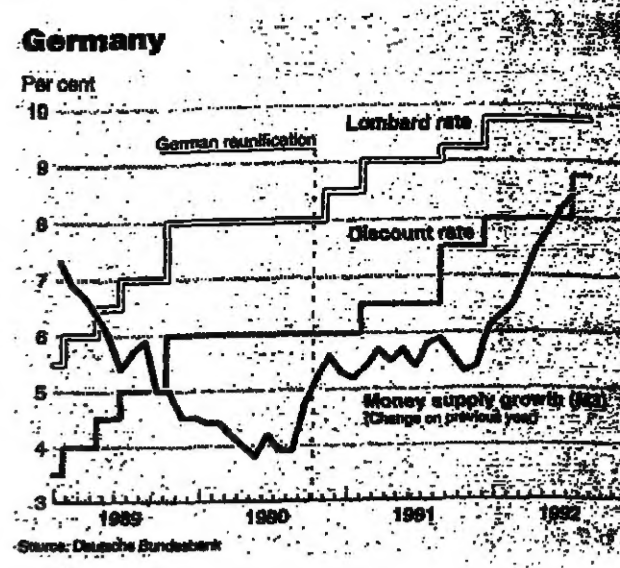
While Mr Schlesinger appeared to stifle hopes of an early German interest rate cut, Mr Waigel was more receptive to the idea. Referring to his budget plans and the need for Germany's wage negotiators to keep pay increases down, the minister said: "We will do what we can. . . to achieve scope for reducing interest rates as soon as possible."

Although Mr Waigel put on a show of public solidarity with the Bundesbank president at a press conference after the talks, some of his officials gave the impression that the Bonn finance ministry sympathised with other EC countries in wanting German rates to fall sooner rather than later.

However, as Mr Lamont pointed out, Mr Waigel has his share of responsibility for Germany's high rates. The policy mix in Germany was "a matter of some concern and some discussion", Mr Lamont said.

Specifically, the chancellor is worried that the large-scale granting of subsidised credits to eastern Germany is boosting German money supply growth and helping to perpetuate high German interest rates. Despite Mr Waigel's protestations of fiscal rectitude, Mr Lamont and other EC finance ministers are also concerned that the government can increase its borrowings through state organisations such as the Treuhand and the German post office without such fund-raising counting as part of the German public sector borrowing requirement.

While the Bath meeting offered some hope of lower interest rates, there are many hurdles before that prospect becomes reality. In the meantime, Mr Waigel can expect to find himself "in the dock" at international meetings.



EC joins in loan for Baltic states

By Andrew Hill

THE European Community intends to provide a $300m (£150.7m) medium-term loan to help the three Baltic republics reduce their balance of payments deficit.

The EC loan will make up half of a $600m package of loans to Latvia, Lithuania and Estonia from the Group of 24 industrialised nations.

So far some $260m of loans have been committed by other G24 nations, with members of the European Free Trade Association shouldering a large part of the burden. Most of the remaining $40m should come from the US.

EC finance ministers agreed provisionally to go ahead with their half of the loan package during their weekend meeting in Bath. The Community should give its formal approval to the Baltic loan at a formal meeting this autumn.

A year ago, in advance of the first EC mission to the Baltic states, Brussels officials estimated that the three republics would require between $2bn and $3bn annually in the form of emergency and technical assistance, project loans and balance of payments aid.

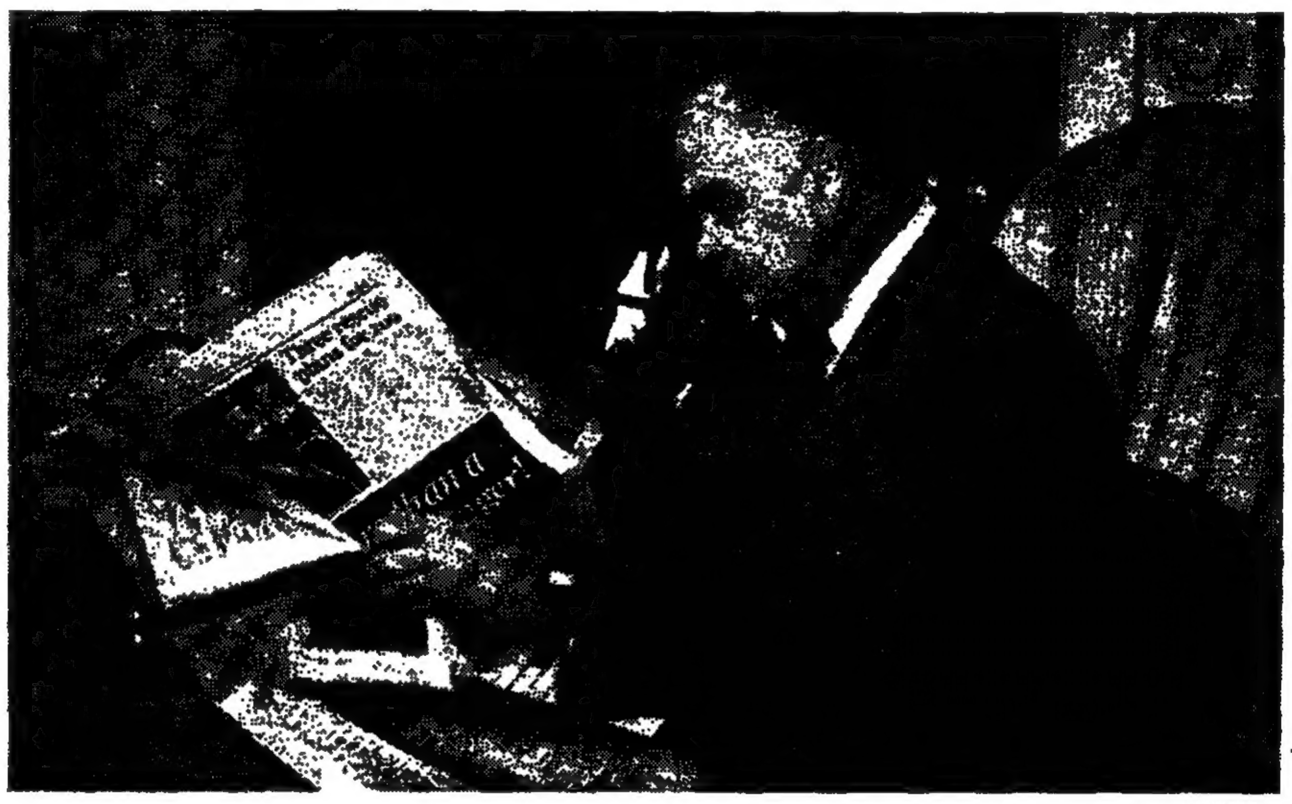
Since then the economic situation has deteriorated still further. An IMF study published in April forecast a 30 per cent drop in Latvian GDP this year and a 15 to 30 per cent decline in Lithuanian output.

The $600m G24 loan is supposed to apply to this year, and Mr Henning Christophersen, the EC finance commissioner, said after the Bath meeting that he expected a quick decision on the EC half of the loan within the next few weeks.

Discussion of the EC economy and the need to calm foreign exchange markets swept most other items off the Bath agenda, but ministers did have time over lunch to hear from Mr Jacques Attali, president of the European Bank for Reconstruction and Development.

Mr Attali urged ministers to improve the flow of trade between the Community and eastern Europe.

Mr Norman Lamont, the chancellor of the exchequer, who chaired the meeting, later reiterated the EC's intention to move to "a more liberal trading position with eastern Europe". He invited Mr Attali to address finance ministers later during the British presidency of the EC.



Colin Beere

Norman Lamont in Bath: tough talking has altered the nature of interest rate expectations on financial markets

Athens wins praise for narrowing gap

By Andrew Hill

GREECE was given a gentle pat on the back by the European Commission at the weekend for its attempts to narrow the economic gap with the rest of the European Community.

EC finance ministers meeting in Bath – preoccupied with the tension in the European monetary system – were able only to glance at a report on the Greek economy.

But Mr Henning Christophersen, the EC commissioner for economic affairs, said afterwards that the Community had seen "clear progress during the last few months" as Greece laboured to meet economic convergence targets set by the Maastricht treaty. Mr Christophersen said he expected Greece's convergence programme to be discussed by finance ministers at a formal meeting in October or November.

The Commission's comments are particularly heartening for Greece coming just two days after a critical report on the country's economy by the Paris-based Organisation for Economic Co-operation and Development. The OECD said Greece would have to apply its economic adjustment programme much more rigorously to curb tax evasion and improve efficiency in the public sector.

Mr Stefanos Manos, the Greek finance minister, said at the weekend that Greece had been "working very hard" to recover from the economic problems of the 1980s.

'Governors stand ready to intervene'

AT the conclusion of the meeting on September 5 of ministers and central bank governors, Mr Norman Lamont, the chancellor of the exchequer, said in a statement:

"In the face of the tensions in the exchange markets the following decisions have been taken.

I. The August 28 agreement not to proceed to a realignment in the European Monetary System has been confirmed.

II. The governors stand ready to intervene in the exchange markets to counter tensions in those markets, exploiting as fully as necessary the means and instruments provided under the EMS for member states.

III. The ministers and governors have also examined the present economic situation in the Community and in this context they emphasised the importance of early and full implementation of strict convergence programmes, in particular to consolidate fiscal positions and to keep under control wage and other cost pressures. They particularly welcomed the recent policy decisions by the Italian government, and its firm commitment to achieve a substantial primary budget surplus in 1993.

IV. In the light of a slowing of the growth prospects of their economies, and insofar as the disinflationary process allows it, they have decided to take advantage of any opportunity to reduce interest rates. They welcomed the fact that the Bundesbank in present circumstances has no intention to increase rates and is watching the further development of the economy."

Militant farmers sow discord

French smallholders fear for livelihood, writes William Dawkins

MR Jacques Laigneau, a cereal producer in south-western France, is typical of the thousands of French farmers who believe their livelihood will be wrecked by the Maastricht treaty on European union.

For Mr Laigneau, 58, Maastricht will bring "US food, Chinese clothes, Japanese cars and French unemployment". It will turn France into a "dustbin for cheap US cattlefeed", he claims, spreading his meaty hands in despair.

Just why Mr Laigneau believes this is so illustrates an important point in France's agonising over its European future in the run-up to the September 20 referendum.

For, like many No voters, his objections are complex and wide-ranging; only partly based on the details of the Maastricht plan itself.

Mr Laigneau admits to being motivated by a general fear of being trampled in a Europe ruled by free-market forces, in which national governments will have little power to help victims of open competition.

Mr Laigneau represents one of the toughest layers in the bedrock of anti-Maastricht opinion in France. He is president and a founder member of Coordination Rurale, the extreme splinter group of 10,000 mainly small farmers. The group, which represents a tiny minority of French farmers, was formed last December in protest against mainstream agricultural unions' acceptance of the principle of European Community agriculture policy reforms.

Coordination Rurale achieved notoriety early this summer when it organised tractor road blocks across motorways in protest against EC price cuts and cheap imports from Eastern Europe. This was the predecessor of the much more damaging nationwide blockade later imposed by the truckers, another group in which anti-EC feeling runs strong.

Over the next fortnight, Coordination Rurale will continue its campaign. Tractors will crawl towards Paris at snail's pace on busy roads from seven corners of France, towing dustbins loaded with copies of the treaty. The group is also planning to send several hundred farmers to distribute anti-Maastricht tracts and to lobby in the streets of the capital in the final week before the referendum.

Mr Laigneau enumerates his concrete objections to the treaty as he perches on a plywood chair in the dingy warehouse that forms the Coordination Rurale's headquarters west of Toulouse.

He accepts that Coordination Rurale's main aim – to try to overturn the cereals and meat price cuts agreed by EC member states earlier this year – has no direct link with the Maastricht treaty.

However, Mr Laigneau knows the treaty well and points to the clauses pledging to work towards open European markets and free competition. These will only reinforce agriculture policy reforms and spell the death of "European preference", by which Mr Laigneau means European consumers' obligation to buy European agriculture produce, even at production prices well above world levels. French farmers need this protection because they cannot compete on equal terms against the cheapest world producers.

"Competition against other Europeans is OK, because we are competing against people with a similar culture and standard of living," he explains.

Coordination Rurale also shares other Maastricht opponents' fears of perceived domination by the Brussels bureaucracy and German influence, he adds.

"It is like the prospect of marriage. If you say Yes, it is irreversible, but if you say No, you can still rethink. And you don't marry a woman who makes you frightened," he says.

Many members of the mainstream agriculture unions, like the FNSEA, share the Coordination Rurale's general fears of European union.

Like the Coordination Rurale, the FNSEA comes mainly from the right wing, where sensitivity about loss of sovereignty is strong.

But the FNSEA believes the Coordination Rurale's opposition to the price cuts is unrealistic and that French agriculture must face up to a measure of international competition – a theme implicit in the treaty.

Mr Laigneau has no time for this argument, nor for the recent reminder by Mr Jacques Delors, president of the European Commission, that French farming would in the long term suffer even more without the reforms.

The Coordination Rurale represents those farms hardest hit by the reduction in EC price support, so it can be expected to take a hard line, says Mr Laigneau. It is no accident that the movement was born in the south-west, a region dotted with poor smallholders, in contrast to the large farms of the fertile Paris basin, where the FNSEA is strong.

Take his own case. Mr Laigneau is well off by the standards of most of his members, with a cereals farm of 105 hectares. Yet he has seen his annual net income dwindle from FFr200,000 (£21,000) to a mere FFr50,000 (£5,250) over the past three years, thanks to a halving in prices and steep rise in costs over the period. He expects to be out of business in another two years if the trend continues.

Many of his neighbours have tried to diversify into quality farm goods like *foie gras* or melons, but have found the price competition as tough there as as on their original production. "Diversification is a trap," says Mr Laigneau. Faced with that problem, it is understandable that Coordination Rurale's members feel cornered.

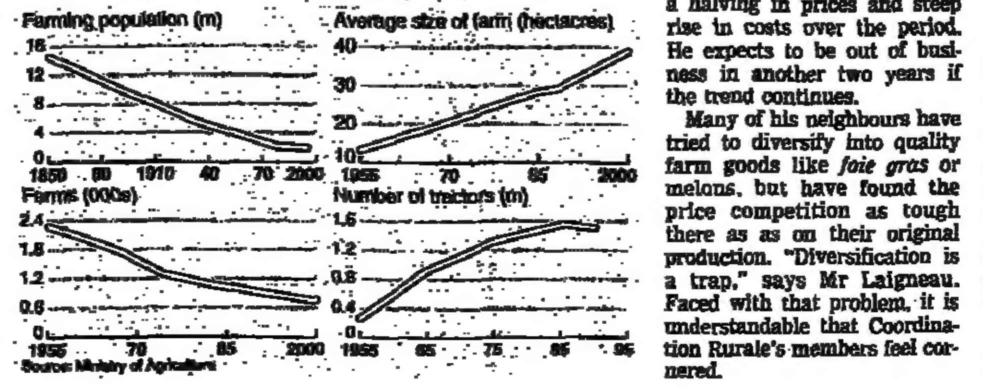
LE PEN ATTACKS 'TREASON'

MR Jean-Marie Le Pen, leader of the far-right French National Front, yesterday stepped up his call for his countrymen to mobilise against the "felons" in their government who had committed "treason" by signing the Maastricht treaty on European union, writes David Buchan in Reims.

In the heart of the champagne country he held his rally against the historic backdrop of Reims cathedral, site of the baptism of Clovis, King of the Franks, in the 5th century and of the coronation of subsequent French kings. The archbishop cancelled Sunday morning services to keep the Front out of the cathedral itself.

Hammering home calls for "judgment and punishment" in the September 20 referendum, Mr Le Pen suggested that he and others in the No camp would have handled President François Mitterrand far more toughly in last Thursday's TV debate than the lacklustre neo-Gaullist, Mr Philippe Séguin. The president's choice of Mr Séguin as sparring partner, Mr Le Pen told 2,000 supporters, was all part of the "manipulation" of French public opinion by its political establishment.

Judging by the Reims crowd, Mr Le Pen is not succeeding in using Maastricht to recruit many anti-EC rejectionists from other parties, which all have their own No candidates.



Italians' vessel risks capsize in choppy water

Rome is linking ratification of the Maastricht treaty with financial reform, writes Robert Graham

THE COUNTDOWN to the September 20 referendum on the Maastricht treaty in France has become a nightmare for the Italian government.

Mr Giuliano Amato, the prime minister, and his colleagues know full well the uncertainties over the future of the European Community in the wake of a No vote would profoundly affect a member like Italy with a huge public sector deficit, high indebtedness, above average inflation and a weak currency.

The judgment of the financial markets was brutally clear last week. The lira was pushed to its floor level within the Exchange Rate Mechanism against the D-Mark on Thursday and Friday. The Bank of Italy on Friday was forced to raise the discount rate by 1.75 points to 15 per cent and obliged to resort to European Monetary System credit facilities enabling it to borrow unlimited amounts of strong currencies for up to 2½ months to defend the lira's parity.

It is only the third time in 30 years Italy has had to force such a steep jump in the discount rate to defend its currency. Despite this and the reassurance of the EC finance ministers' commitment to existing parties within the EMS over the weekend at Bath, the government recognises each day in the markets will have to be treated on its merits until the French referendum result is known.

The weapons with which Italy can protect the lira are limited and drastic measures such as the discount rate rise risk being self-defeating as they squeeze industry in recession and add to the burden of state debt which in turn complicates the reduction of the overall budget deficit.

"We may be in the same boat as the rest of our [EC] partners but we are having to row twice as hard now and are the ones taking in the water," said a senior official.

Over the weekend Mr Cesare Romiti, chief executive of the Fiat group, called on the government to speed up privatisation with some concrete measures "to give a signal to the markets that there really is a will to do something". But the government has its hands tied by parliamentary procedures and the complex process of preparing the 1993 budget.

The central feature of the 1993 budget will be structural reforms of four key areas – Italy's generous pensions system, the inefficient civil service, overspending public health and regional administration. The government is seeking special "delegated authority" from parliament to carry out these reforms. This means both houses of parliament need merely approve the broad outline of the reforms.

If this authority is denied, then all budget calculations are undermined – at least their timescale. But equally a traditionally leisurely parliament has to debate in committee and full session – a process repeated in each house – in record time. The budget has to be presented before September 30 by law.

At the same time parliament has to process Italy's own ratification of the Maastricht treaty. This should be comparatively easy and ratification could be through the Senate before the French vote on September 20. Only one of the 16 parties in parliament, Reconstructed Communism, has shown reservations about Maastricht in that it links Italy too closely with the disciplines of a market economy.

A real debate about Europe has never taken place. Italian politicians have always assumed Italy formed an integral part of Europe, have never questioned loss of sovereignty and have seen the EC as an essentially beneficial institution. This still seems true today even though painful obligations such as defending the lira have supplanted the old privileges. Yet it also means Italy is wholly unprepared for any alteration in the direction of the EC given a No vote in France.

The Italian government's confidence about parliament's pro-Europe leanings is such that it is using ratification in arguments for the politicians to endorse its financial reform package. Last week in the Senate introducing the issue of ratifying Maastricht, Mr Emilio Colombo, the foreign minister, said: "The ratification of the treaty will be credible if the Senate approves textually the law delegating authority [to the government] for the reform of the country's finances."

In other words parliament is being told it would be inconsistent to be pro-European and ratify Maastricht while rejecting fundamental financial reforms which are essential for Italy to be part of the Europe conceived by Maastricht.

But the real pressure will continue to come from the markets which will almost certainly demonstrate that, whether or not the French referendum endorses Maastricht, Italy will be expected to put its house in order along the lines of the treaty.

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Russia takes hard line in Kuriles dispute

By Steven Butler in Tokyo and John Lloyd

HOPES of a breakthrough on the Kurile Islands row between Japan and Russia were further dampened yesterday when Russian President Boris Yeltsin warned Japan not to expect him to hand back any of the islands when he visits Tokyo next week.

Failure to resolve the problem has become a stumbling block in efforts to improve ties. Japan has refused to contemplate large economic aid to Russia until it recognises Japanese sovereignty over the four islands. Mr Yeltsin was speaking on Japanese TV via a satellite link-up. An international report on the Kuriles plumps for transfer of the islands to Japan. The report was written by experts drawn from Russia, Japan and the US, co-chaired by academics from each of the three countries.

It has no official status, but all three chairmen, Prof Graham Allison of Harvard's Kennedy School of Government, Prof Hiroshi Kimura of the International Research Centre for Japanese Studies at Kyoto, and Dr Konstantin Sarkisov, head of the Russian Centre for Japanese Studies, have "ties to their countries' policy communities" and are likely to be taken seriously.

They call on Mr Yeltsin to apply the principles of "law and justice" to the issue by offering to hand over two of the four islands (the Habomais group, and Shikotan) at once, negotiating the handover of the remaining two (Iturup/Etorofu and Kunashir) within a fixed one to two years.

The report proposes Japan set up a comprehensive economic co-operation and aid programme to help Russian reforms, at a cost of $50bn (£25bn) over the next 10 years. It urges Japan to lead the Group of Seven nations in providing assistance in converting defence plants to civilian use, investment and aid to the Far East region, and expertise on de-nuclearisation and environmental clean-up.

Mr Yeltsin's overall tone was cordial. He wished to discuss a wide range of issues, not focus on the territorial dispute. "Some people have been making hysterical remarks about the dispute, but I have no plans to cancel the visit," he said. He is likely to find any talks rough going unless he brings a compromise on the islands, called the Northern Territories in Japan and the Southern Kuriles in Russia.

The experts' report argues that a referendum in Russia on the issue, sought by opponents of a handover, is not constitutionally essential. In an appended working paper, Mr Vassily Saplin, deputy director of the Pacific and South-East Asia department of the Russian Foreign Ministry, says opponents of the present government would blame Mr Yeltsin for "capitulating". This could "become a serious destabilising factor for Yeltsin's government".

Beyond Cold War to Trilateral Co-operation in the Asia Pacific Region; the Kennedy School of Government, Harvard University, Cambridge, Mass, US.

Pretoria seeks backing for federalist plans

By Patti Waldmeir in Johannesburg

SOUTH Africa's ruling National Party will today host a conference of right-of-centre political parties in an attempt to build a united front behind the demand for a federal constitution for post-apartheid South Africa.

The issue of federalism - the degree to which political power is devolved to regional and local level in the new South Africa - is likely to prove the most contentious issue to be resolved whenever formal talks on a new constitution resume between the National Party and its main black opponent, the African National Congress (ANC).

Though the ANC pays lip-service to the concept that power should be devolved to regions, it nevertheless envisages a highly centralised state where most important decisions are taken at central government level. The power to levy taxes would also be highly centralised, undermining further the political power of regional parliaments.

The National Party, along with federalist allies such as the mainly Zulu Inkatha Freedom Party, the governments of black homelands such as Bophuthatswana and Ciskei, and some of the many Afrikaner separatist movements, believe that South Africa's highly fractious multi-ethnic society cannot be governed peacefully by a majority party ruling from the centre.

Under a federal constitution, these ethnically based minority parties would retain a far greater share of power than in a centralised, unitary state, and for this reason, the ANC remains highly sceptical of such a constitution.

ANC officials say government uses federalism as camouflage for its real aim: to preserve white privilege in a black state, by guaranteeing the National Party a disproportionately large share of power. Many also oppose federalism because it would give the ANC's arch-rival, Chief Mangosuthu Buthelezi of the Inkatha Freedom Party, probable control over what is now Natal Province (boundaries would be redrawn under a new constitution).

Buthelezi: ANC's arch-rival

The ruling party will today try to counter these criticisms by presenting proposals on how political and fiscal power should be distributed between central, regional and local level. The other main participants at the conference will be Inkatha and other black homeland parties, as well as the new Afrikaner Volksunie party, formed after last month's split in the ultra-right Conservative Party. The liberal Democratic Party, which has long advocated federalism, will send only an observer delegation; it says it is reluctant to join a National Party coalition against the ANC.

Bosnian Serbs given heavy-weapons deadline

By Laura Silber in Belgrade and agencies in Geneva

INTERNATIONAL mediators have given Bosnian Serbs until next weekend to place their heavy weapons around four key Bosnian cities under UN control, they said yesterday. The mediators, Mr Cyrus Vance and Lord Owen, who are chairing a new international peace conference on the former Yugoslavia, issued their statement in Geneva.

They called on Bosnian Serb leader Mr Radovan Karadzic to "honour the seven-day deadline by concentrating the weapons concerned at notified locations around the four cities" – Sarajevo, Gorazde, Bihac and Jajce. In Sarajevo yesterday, the 380,000 inhabitants were trapped without water supplies while the humanitarian airlift to the Bosnian capital stays suspended.

Mortar shells destroyed a truck at a UN supply warehouse and UN officials said it seemed the relief effort was being deliberately targeted. Doctors in Sarajevo said cholera and hepatitis had broken out. People collected rainwater after water supplies were cut off on Saturday.

Snow fell in the city, warning of an early winter. The last lifeline to the Bosnian capital was severed on Thursday when an Italian aid flight crashed west of the city. UN teams are trying to determine if the aircraft was shot down. UN officials said food supplies were extremely low in the city, where six people were killed on Saturday.

Summit condemns ethnic cleansing

By William Keeling in Jakarta

THE Non-Aligned Movement (NAM) yesterday ended its summit in Jakarta with a communiqué condemning "the obnoxious policy of ethnic cleansing by Serbs in Bosnia-Hercegovina".

The Yugoslav delegation, representing Serbia and Montenegro, rejected the condemnation, saying the movement had "changed the document after adoption". Before the final draft, the communiqué had not singled out the Serbs as responsible for ethnic cleansing. The Yugoslavs called the changes "deplorable", insisting "all three sides to the conflict, including Croats and Moslems in Bosnia-Hercegovina, are involved in such practices". Some member states want to expel Yugoslavia: Croatia, Slovenia and Bosnia-Hercegovina re-applied for full or observer status.

Ethnic Serb soldiers sit in a truck after leaving their positions in eastern Bosnia. The Bosnian Serb army is withdrawing from its positions around Gorazde in accordance with the agreement reached at the London conference on Yugoslavia

Cuba's nuclear plant shelved

CUBA'S President Fidel Castro said at the weekend his government was suspending indefinitely the construction of Cuba's first nuclear power plant because it could not afford to complete it, Reuter reports from Havana. The project was the latest casualty of Cuba's current economic crisis, triggered by the collapse of preferential trade links with east Europe. Havana was unable to accept Russia's conditions to help complete the project near Cienfuegos.

Caracas posts 8.5% growth

Venezuela's economy posted 8.5 per cent real growth in the first half of 1992, against the same period last year, the state planning ministry Cordiplan said, writes Joe Mann in Caracas. At the current rate of growth, Caracas expects economic expansion for the year to exceed its 4-5 per cent estimate. The private sector grew 15.5 per cent, with construction up 33.8 per cent, distribution of goods up 22.8 per cent, and industry up 14.2 per cent.

'Mafia boss' arrested

Italian police yesterday arrested Mr Giuseppe Madonia, a mafia boss believed to be implicated in the killings of leading anti-Mafia magistrates Mr Paolo Borsellino and Mr Giovani Falcone, writes Robert Graham in Rome. Mr Madonia has been wanted by police since 1984. The Madonia family controls the city of Gela in Sicily. Yesterday, police said Mr Madonia was probably number two in the Cosa Nostra hierarchy.

Armenia seeks Turkish grain

The former Soviet republic of Armenia has asked Turkey, seen by many Armenians as a foe, for 100,000 tonnes of grain, writes Leyla Boulton in Moscow. Armenia is waging a war over Nagorno-Karabakh with Azerbaijan, a former Soviet republic friendly with Turkey. Turkey has worked to build cordial ties with Armenia's President Levon Ter-Petrosian and help end the Nagorno-Karabakh dispute.

Shining Path strikes again

Maoist Shining Path guerrillas have detonated 350 kilos of dynamite in Lima, killing seven people and wounding scores of others, police said, Reuter reports from Lima. The van exploded at a stop on the Pan American Highway.

Vietnam accuses China in offshore oil dispute

By Victor Mallet in Bangkok

VIETNAM'S dispute with China over maritime boundaries has worsened, with Hanoi accusing Beijing at the weekend of establishing an illegal drilling platform to explore for oil in Vietnamese waters in the Gulf of Tonkin.

China and Vietnam restored "normal" relations in November after years of tension, but the rapprochement was quickly soured by territorial disputes on land and at sea.

In May, China signed an agreement with Crestone Energy of the US to explore for oil in an area of the South China Sea between Vietnam and Malaysia and 1,000km south of the Chinese island of Hainan. Vietnam said the zone was on its continental shelf.

The latest dispute concerns a Chinese rig and seismic survey ships working off the northern Vietnamese province of Thai Binh in the Gulf of Tonkin.

"I think China will have to respond to the Vietnamese requests for an immediate halt to the oil-drilling and other activities in Vietnam's territorial waters," Mr Le Mai, Vietnamese deputy foreign minister, told Reuters at the non-aligned summit in Jakarta.

Asked if Vietnam would use force, he said: "We do not want to seem as if we are preparing for confrontation. The question of territorial sovereignty is sacred to every nation."

On Saturday the Chinese foreign ministry said the Chinese ships were exploring in waters under Chinese jurisdiction. "This is not something new, but the continuation of the oil exploration that has been going on there for quite some time," it said.

Even if Hanoi wanted to retaliate, Vietnam's navy is apparently too weak to mount operations against Chinese incursions or deter further encroachments. Instead, Vietnam is seeking common cause with other countries concerned about possible Chinese expansionism.

Tajikistan torn apart by communal war

Weapons flow freely to criminal groups, Steve Levine reports from Kurgan-Tyube

TAJIKISTAN, the former Soviet Union's poorest republic, is being torn apart by communal warfare and political and economic chaos.

In Kurgan-Tyube, an agricultural region in the south, communal fighting rages, while in the capital Dushanbe, President Rakhmon Nabiyev has gone into hiding in an attempt to avert the latest effort to topple him. In the north and south, independent armies have formed as central authority has crumbled. Weapons flow freely over the Afghan border to Tajik political groups and crime syndicates.

In the south-east, dairy farmers are reportedly dumping milk into rivers because a fuel shortage stops them getting it to market. "Everybody comes here and nobody helps us," says Mrs Tamara Ramkin, who lives 300 yards from the centre of fighting in Kurgan-Tyube, a region of 80,000 people. "Take us with you. They have even closed the hospital. Today a woman had to give birth in the basement here."

Residents say they were without milk, bread or fuel for three days last week.

Today, Tajikistan's parliament will try to end the latest crisis. Opposition leaders trying to dislodge Mr Nabiyev believe that while he is unlikely to resign, they will muster enough votes to transfer his powers to the parliament and council of ministers.

Constitutionally Mr Nabiyev will be president until he quits. Even if the opposition succeeds, transfer of power is unlikely to end the chaos.

For the second time this year, the opposition has tried to seize power. The first stand-off, which left scores dead, ended in May when Mr Nabiyev surrendered eight of the most powerful jobs in his 24-member cabinet to opponents. Trouble resumed immediately with the communal war in Kurgan-Tyube, in which 2,000 people have died since May.

The opposition, a coalition of Democratic and Islamic parties, has succeeded only in running Mr Nabiyev out of his palace and pushing back his militia in Kurgan-Tyube.

Since the Soviet Union collapsed last December, Tajikistan has struggled to recover its Persian, Islamic past. It is a struggle to defeat entrenched communism and to overcome fears among potential foreign investors and donors that its religious liberalisation presages an extremist government.

There is a regional issue as well. Concerned about arms flowing from Afghanistan, Moscow and three central Asian republics last week vowed to take "any necessary steps" to prevent Tajikistan from plunging into civil war.

The fighting has begun to isolate the nation of 5m people who share a 1,100-mile border with China and Afghanistan. In July, the neighbouring republic of Uzbekistan halted flights to Tajikistan.

Mr Nabiyev, Tajikistan's ex-communist party boss, is popularly blamed for his country's problems. His support has dropped steadily since he won election last November with 60 per cent of the vote. Today, he has broad support in only one of Tajikistan's five regions, Kulyab. The republic's economy shrank 13 per cent in the first quarter of this year and 20 per cent in the second. The fuel shortage has raised the price of what petrol can be found to five times the Moscow level.

In the Pamir mountain region, hospitals have closed, according to reports from the area. Lorries carrying fresh produce, such as grain and milk, are finding it impossible to reach remote regions.

Aside from troops from the Commonwealth of Independent States, there is no security force in Dushanbe. Robberies and kidnappings have surged. Two regions have formed their own security forces.

Mr Nabiyev's native region, industrial Leninabad, has taken control of central government offices in the north and set up a 2,000-strong army. Mr Nabiyev has formed a militia in Kulyab. The force is now fighting in Kurgan-Tyube, led by Mr Safarov Sangak who, before his current job, spent 23 years in jail.

In Kurgan-Tyube, the streets are deserted. Sniper fire whistles overhead. Tartar and Tajik women wail they have no part in the war. "What did I do?" one asks. "Why am I guilty?"

Russia will temporarily assume responsibility for policing the borders of Central Asian republics to stop the flow of arms and drugs, Mr Yevgeny Primakov, head of Russia's intelligence service, said at the weekend, writes Leyla Boulton in Moscow. Since the Soviet Union collapsed in December, the Central Asian republics have been the least able of the newly-independent states to create their own border forces. A border control pact was concluded last month with Tajikistan, where civil war is fuelled by weapons from Afghanistan.

Voting in southern Lebanon

VOTING opened in southern Lebanon yesterday in the third and final round of its general election, despite a Christian boycott, Reuter reports from Sidon. Over 500,000 voters are eligible to choose from among 131 candidates competing for 23 seats in the new 128-seat national assembly.

The Syrian-backed government tightened security yesterday, with thousands of troops guarding towns and villages. Christians say the polls are a ploy by Syria to tighten its grip on Lebanon. They want the elections held after Syrian troops withdraw from Beirut and nearby areas.

Whisky sales push ouzo makers to seek markets in Europe

Confidence is returning to the larger producers as exports find their way onto more supermarket shelves, writes **Kerin Hope**

THE EUROPEAN MARKET

THERE is nothing as Greek as ouzo, the aniseed flavoured fiery liquor which is the traditional drink of the country. But there is nothing modern Greeks like better than whisky, and that has stimulated the ouzo industry to seek new markets in Europe.

A surge in whisky drinking over the past decade has transformed the Greek spirits market, traditionally dominated by ouzo and locally produced brandy. The Greeks are now among the world's largest per capita consumers of whisky, and drink considerably more vodka and other imported spirits than they used to.

Ouzo accounts for just over 30 per cent of liquor sales, down from 70 per cent in the mid-1980s. Another 30 per cent is covered by whisky, followed by vodka and gin.

A recent study by Icap, a Greek market research company, found that ouzo consumption in Greece dropped to 13.6m litres in 1991 from 24.3m litres five years earlier. Small ouzo producers who relied on bulk sales or were unable to distribute outside a regional network suffered most from the change in drinking habits.

However, there is returning confidence among larger ouzo producers. Not only is their product now recognised abroad as exclusively Greek, but their request to retain a reduced VAT rate was upheld in last month's provisional European Community agreement on indirect taxation.

Exports have shot up, mainly to Germany where ouzo is no longer drunk only by expatriate workers from Greece and Turkey, or in the country's 6,000 Greek restaurants. Ouzo is on the shelves of a number of large supermarket chains.

In addition, Greece's export promotion board has financed a Dr200m (£578,000) advertising campaign this summer to promote ouzo in Germany. But, after consultation with ouzo-makers, the campaign's designers were careful to avoid the "blue sea and bouzouki music" imagery associated with Greece.

"There is only so far you can go with a tourist souvenir product. We're more interested in positioning ouzo in its own right, as a unique drink," says Mr Dimitris Papazimouris, brand manager of Ouzo 12, the leading ouzo manufacturer.

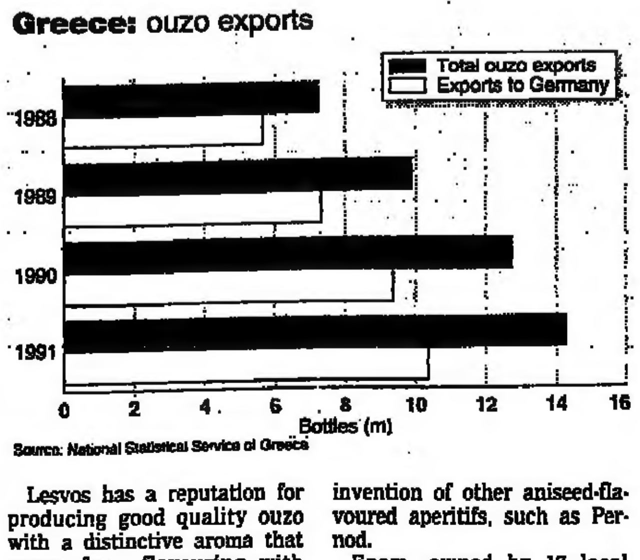
Last year, 10.3m bottles of ouzo were sold in Germany, a sharp rise from 5.6m three years ago. Germany now absorbs 70 per cent of ouzo exports, while other traditional markets, mainly the US and Australia, show little change.

The turn towards exports even extends to a traditional ouzo producer on the remote Greek island of Lesvos. The Distillers' Union of Mytilene (Epom) is spending Dr200m on a new production line for its ouzo plant.

After several years of rapid sales growth in the Athens area, where competition is fierce among ouzo manufacturers, Epom plans to boost exports. It hopes it will be able to carve out a niche in an expanding ouzo market in northern Europe.

Epom's turnover doubled to Dr1.3bn over the past three years, largely as a result of selling directly to cafes and restaurants in Greece. Mr Nikos Kalamidiotis, sales director, says: "If we can keep up with the big mainland producers, we can certainly sell more abroad, where quality is appreciated and margins are much higher."

Greece: ouzo exports



Source: National Statistical Service of Greece

Lesvos has a reputation for producing good quality ouzo with a distinctive aroma that comes from flavouring with mountain-grown aniseed. Some Greek distillers claim that ouzo, exported to France in the late 19th century, inspired the invention of other aniseed-flavoured aperitifs, such as Pernod.

Epom, owned by 17 local ouzo-making families, developed a brand much lighter than traditional ouzo, with an alcohol content of 36 per cent. Most ouzos are over 40 per cent alcohol.

"We may have an edge in quality, but our disadvantage is in being 18 hours' sailing time from Athens. We have to keep much bigger alcohol stocks in case of transport problems. Overall, our production costs are about 5 per cent higher," Mr Kalamidiotis says.

There are other obstacles to expansion. Getting permission to extend the Epom factory on the outskirts of Mytilene, the island's capital, is time-consuming because it is built over the ruins of the ancient port.

The stainless steel vats for storing alcohol cannot be kept underground because of objections by the archaeological service.

At the other end of the scale, Ouzo 12, with a 40 per cent share of the domestic ouzo market, was acquired last year for $40m by Grand Metropolitan, the British food, drinks and retailing group which already owns Metaxa, the leading Greek brandy producer.

A relaunch for Ouzo 12 is planned for next year, both in Greece and across Europe. The company's elderly copper stills are being transferred from its factory in Thebes in central Greece to a new computer-controlled distillery at the Metaxa plant in Athens.

As a result of gaining access to an international distribution network, Ouzo 12 sales have already grown in the rest of the European Community. Last year, over 1m bottles were sold in western Europe, mainly in Belgium, the Netherlands and Britain.

Mr Papazimouris says: "We think that ouzo has the potential to become an international brand. With the right support, there's no reason why it shouldn't become as popular as tequila."

'Open skies' accord could set trend

By Nikki Tait and Paul Betts

The US-Netherlands agreement will intensify controversy in Europe over bilateral aviation accords with America

THE "open skies" agreement between the US and the Netherlands reached on Friday should be a mould-breaking accord and a model for future aviation pacts.

It is expected to intensify the controversy in Europe over negotiation of future bilateral aviation agreements with the US.

Instead of the usual bilateral restrictions on destinations to which carriers can fly, KLM, the Netherlands' flagship carrier, for example essentially gains authority to fly into any US city. US carriers will be offered unrestricted access to any Dutch destination.

Mr Andrew Card, the new US transportantion secretary, described it as "a very significant event in international aviation" while "a dream treaty" was the description from Mrs Hanja Maij-Weggen, the Dutch transport minister.

But while this may not be the last "open skies" agreement signed in the near future, there now seems little likelihood that a host of similar deals will follow - especially with more significant European nations.

Relations between the US and France on aviation reached a low ebb this summer as the French demanded tighter control on US carriers' insatiable appetite for international access.

The position with Germany is broadly similar.

British Airways, the UK's flagship carrier, currently stands accused of sneaking around bilateral restrictions with its plan to invest $750m in USAir, a sizable US domestic carrier, in return for a minority stake.

"Open skies" has been a clarion call in US aviation policy for many months. It has, however, been prompted by self-interest rather than high-minded principle. As US airlines know to their cost, travel within the domestic market is depressed.

The big US carriers such as American, United and Delta have spent hundreds of millions of dollars acquiring international route authorities. And, for once, luck was on the buyers' side: financial problems at the likes of Pan Am and Trans World Airlines turned these airlines - once flagships for the US industry abroad - into forced sellers.

But the large surviving US airlines would like to do more than merely take over the routes which their ailing brethen used to serve. The obstacle is restrictive bilateral agreements which govern the access of airlines to non-domestic markets. Hence, the pressure for "open skies".

The US transportation department a month ago summarised the key provisions of "open skies" as:

- Open entry and unrestricted capacity or frequency on all routes - including the right to operate services between any point in the US and any point in the relevant foreign country.
- Flexible fare-setting arrangements.
- Liberal charter and cargo arrangements.
- Open code-sharing opportunties and non-discriminatory access to computer reservation systems.
- The right of any carrier to run its own handling operations at the overseas airport.
- The ability to convert and remit overseas earnings.

However, the DoT's final order then muddied the waters. First, government officials suggested that "depending on the characteristics of a particular bilateral relationship, we might find that additional elements beyond those listed...would have to be included".

Second, they said that they would assess case-by-case whether each criterion had to be present for an "open skies" relationship to exist.

Some industry watchers view these qualifications as a disappointment. "The entire effort to develop a firm definition of open skies appears to have been a waste of time," said Avmark, the US-based aviation consultancy, "since decisions will still be made on a case-by-case basis, permitting flexible interpretion of the eleven points, and taking into account other factors, such as airline ownership and control."

The thorny matter of foreign ownership is, in fact, left out on the "open skies" definition altogether. At present, US rules limit foreigners to a 25 per cent voting interest in any US carrier, although equity stakes of up 49 per cent can be held without automatically being deemed foreign control.

Some parties had urged the DoT to make liberal ownership provisions part of any "open skies" agreeement. But, again, the DoT fudged: "We feel that the best way to proceed is to address these matters on a case-by-case basis," it said.

Yet, in the light of the BA-USAir plan, it seems that ownership and control are becoming the relevant subjects.

US carriers, having read the fine details of the BA investment agreement, note that its board presence would allow it to block all key decisions to be made by USAir – its annual budget, for example, or big capital expenditures.

Moreover, they contend, if BA is allowed to make the purchase, this "controlling interest" in USAir, the British government will have no incentive to negotiatea more liberal bilateral agreement. If the nation's only major airline has effective access to the US market, why should it be moved to grant US carriers be granted additional inroads into the UK?

BA retorts that this is all anti-competitive, driven by the Big Three's desire to maintain dominance in their domestic market and starve USAir - debt-burdened and lossmaking - of new capital.

The European commission is pressing for development of a common European external aviation policy to coincide with the European single market next year, and to enable the EC to negotiate as a block aviation accords with other industrial blocks like the US and Japan.

But EC officials have warned that unilateral action by some member countries risks undermining this move towards a common aviation policy. They also fear some member states may negotiate new bilaterals with the US, which may be favourable to their national flag-carriers but would weaken the broader interests of the Community at large.

Meanwhile, the DoT has yet to rule on the BA/USAir deal - indeed, it has not even determined a procedure for the decision-making.

The skies may be opening in Holland, but elsewhere the clouds are just gathering.

Israeli budget proposals attacked

By Hugh Carnegy in Jerusalem

ISRAEL'S central bank yesterday delivered a sharp attack on the Labour-led government's 1993 budget plan – its first broad economic policy initiative since coming to power in July – saying the proposals lacked the right measures to stimulate growth and employment in the immigration-burdened economy.

Mr Avraham Shochat, the finance minister, was released from hospital where he was being treated for a leg infection to present his Shk98bn (£20bn) budget to the cabinet. It is meant to shift the emphasis laid by the previous Likud government on construction – especially in Jewish settlements in the occupied territories – towards increasing employment in the private sector within Israel "proper" where unemployment is running at more than 11 per cent.

A package of proposals for *significant structural reforms*, including liberalisation in the capital markets, the import regime and the state's monopoly in telecommunications, was also presented to ministers. The budget encompasses a Shk800m tax cut and a modest shift to greater spending on infrastructure.

But Mr Jacob Frenkel, the governor of the Bank of Israel, told the cabinet it did not go far enough. "A greater increase of investments in infrastructure, additional tax reductions which will increase employment in the business sector and additional investments in human infrastructure by increasing education budgets are required," he said. "In the budget submitted today there is no satisfactory concentration of such steps."

Mr Frenkel said the government should be willing to cut the welfare and defence budgets to finance extra investment. Both areas, which together make up almost half of government expenditure, were largely untouched in Mr Shochat's proposals. Nonetheless, leftist members of the government attacked the budget for not allocating more to social spending.

They also called for deeper cuts on spending next year on Jewish settlements which is estimated to total around Shk2.5bn, mainly on housing envisaged by the previous government.

Mr Shochat's reform proposals included: abandoning preferential government bonds issued to trade union pension funds; breaking the monopoly of Bezeq, the state telecommunications company, on international telephone links and mobile phones, and freeing imports of petrol and meat.

Morocco votes to reform constitution

By Francis Ghiles in Rabat

MOROCCO has overwhelmingly endorsed constitutional reforms aimed at liberalising one of the Moslem world's oldest monarchies, where all power has traditionally been vested in the head of state.

However, the size of the majority officially reported – up to 100 per cent in some areas – is likely to be met with some scepticism abroad.

According to the Ministry of the Interior, 99.96 per cent of the vote in Friday's referendum endorsed the reforms. This rose to 100 per cent in the main cities. The ministry also reported that three of the four Western Saharan provinces, which, though occupied by Morocco since Spain left in 1976, are not recognised as Moroccan by the United Nations and the main western powers, also voted 100 per cent in favour.

This comes even though leading opposition parties called on their supporters to abstain and the two main trade unions urged a No votes.

The 100 per cent figures smack of eastern Europe before the fall of communism, and, in the Western Sahara, such figures could make UN efforts to implement plans for a referendum even more difficult.

As for Morocco's well-wishers abroad, they can only be embarrassed. While the country has travelled a long way towards modernising its economy, the need for a more modern political systemis pressing. King Hassan is well aware of that need, but his powerful minister of the interior, Mr Driss Basri, may not have helped by providing such neatly tailored results.

Nevertheless, the referendum was considered by many Moroccans as a trial run for three elections due in the next few months: for local councils, and professional bodies (which provide a third of all members of parliament), and then a general election.

The reforms would not turn Morocco into a western-style constitutional monarchy, but King Hassan has indicated he wants to delegate some powers in recognition of changes in the kingdom over the past 20 years, requiring a more modern political machine.

The new constitution requires Moroccan governments to reflect the balance of forces in parliament and submit their programme to a vote of confidence. his New laws will automatically be promulgated a month after they are approved by parliament rather than await the monarch's approval, which some never got or got only belatedly.

The new constitution has a strong commitment to human rights, but the unofficial Moroccan human rights organisation, Organisation Marocaine des Droits de l'Homme, says there are still at least 300 political prisoners. The authorities deny this.

Collor fiddles while public opinion burns

Brazil's president remains impervious to demands that he quit, writes Christina Lamb

NOBODY can fault Brazilian President Fernando Collor for determination.

Since the publication two weeks ago of a congressional report accusing him and his family of receiving millions of dollars from an influence-peddling racket, Mr Collor has remained impervious to huge street demonstrations and demands for his resignation from lawyers, intellectuals, business organisations, bishops, trade unions, students and leading newspapers.

Last week, as impeachment proceedings began, a poll indicated that 69 per cent of the population no longer trust him. The Brazilian Karate Association even wants to strip him of his black belt.

Despite such isolation, Mr Collor remains ensconced in his office on the third floor of the modernist presidential palace, tenaciously clinging to power as if sheer force of will can save him.In the last 67 years, only one civilian president has ever finished his mandate.

Such is Mr Collor's bravado that he is insisting on attending today's Independence Day parade even if he has to travel by helicopter and reach the platform through a tunnel to avoid contact with the public.

So nonchalant does the 43-year-old former playboy seem that observers conclude that he must either be supremely arrogant or is failing to grasp or believe what is happening. Ministers say that he refuses to read the papers,and last week he described the situation to Argentine television as "absolutely normal".

Mr Collor's cabinet is less confident. The group of so-called "ethical ministers," led by Economy Minister Marcilio Marques Moreira, is now referred to as the "Politburo," having effectively wrested power, signing a pact of governability to ensure the running of the administration while the crisis continues.

Mr Collor has formed a political team comprising a group of people frequently portrayed as gangsters by Brazilian cartoonists. They include Mr Ricardo Fiuza, a well known political operator and the social action minister, Mr Eraldo Tinoco, the education minister, and the presidents of the state-owned Banco do Brasil and the National Savings Bank. Their task is to win the support of 168 congressmen, the number Mr Collor requires to withstand impeachment in the vote expected to take place in the next six weeks.

President Collor: increasingly isolated from reality

While the ethical ministers try to maintain a tight grip on treasury coffers, Mr Fiuza has been spending. Last month alone he directed Cr59.1bn (£6m) to projects in municipalities where congressmen are standing as candidates in next month's elections. With no new money available under the government's austerity plan, funds are instead being "redirected" from other ministries. Economy Ministry officials admit that, in the last two months, Cr6,000bn has been redirected.

There is little attempt to mask this strategy. At a dinner of congressmen last week, Mr Collor crudely promised to "benefit later those who support me now." His time is spent breakfasting, lunching, dining and cajoling the very type of porkbarrel politicians that he always said he detested. To avoid photographers they are smuggled in and out of Mr Collor's bunker in the palace through a side door or tunnel.

Nearby, in the offices of the Attorney General,staff are sifting through 40,000 cheques and other documents, to decide whether a criminal process should be started.

Perhaps the most important focus of attention is the Army Ministry. The current crisis is the first this century in which the military has not intervened, but the forces' insistence on sticking to a constitutional solution may be weakened if the crisis is prolonged.

See Observer.

GM workers end Ohio stoppage

By Alan Friedman in New York

SOME 2,300 employees at a General Motors' metal-stamping plant in Ohio were back at work yesterday after the leading US motor vehicles group reached an agreement with the United Automobile Workers (UAW) union to end a nine-day strike.

The end of the strike, perceived by some Wall Street analysts as a test of GM's ability to cut staff and costs, came with less drama than might have been expected.

Ms Linda Cook, a GM spokeswoman, said GM's key concession was to agree to keep a tool-and-dye shop at the Lordstown, Ohio, plant operating until January 1994 rather than to close it down this autumn. The tool-and-dye shop employs 180 people.

The ending of the strike means that car assembly operations, employing nearly 43,000 GM workers at nine plants across the US, will begin functioning again this week. GM had shut down the plants because of a shortage of components caused by the strike.

The first car assembly plants - manufacturing the Saturn model and some Pontiac and Chevrolet models - will begin running again tomorrow.

The UAW said a skeleton crew was back in the Lordstown facility by Saturday evening. Agreement between the UAW and GM had been reached just after 1 o'clock on Saturday morning.

GM, which made a $4.5bn loss last year, wants to close a series of plants in the US and remove 74,000 jobs from its workforce to slash costs.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.4	77.1	100.8	95.3	101.4	103.3	125.7
1987	105.6	100.7	104.0	96.7	64.7	101.2	92.5	103.1	100.6	126.9
1988	109.9	103.2	107.0	98.1	59.9	102.2	92.3	107.8	96.2	137.4
1989	115.2	108.5	110.0	98.9	63.0	105.0	94.2	114.0	96.1	131.3
1990	121.5	113.8	114.0	100.9	56.6	108.2	95.7	120.1	96.2	116.1
1991	126.6	116.3	117.0	103.5		111.8	97.3	124.4	101.7	
3rd qtr.1991	3.9	1.9	3.2	2.4		3.3	1.7	3.3	4.0	
4th qtr.1991	3.0	−0.2	2.9	1.7		3.2	0.0	3.2	6.0	
1st qtr.1992	2.9	0.4	2.3	−0.1		2.1	−0.6	2.5	6.6	
2nd qtr.1992	3.1	1.2		−0.6		2.5	−0.7			
August 1991	3.6	2.0	3.5	2.6	n.a.	3.5	1.9	6.5	5.0	n.a.
September	3.4	0.8	2.6	2.1	n.a.	3.0	1.1	2.9	4.0	n.a.
October	2.9	−0.1	2.6	2.9	n.a.	3.1	0.3	2.8	6.1	n.a.
November	3.0	−0.5	3.5	1.7	n.a.	3.6	−0.1	2.7	6.0	n.a.
December	3.1	−0.1	2.6	0.7	n.a.	3.0	−0.1	3.5	5.9	n.a.
January 1992	2.6	−0.4	1.7	0.7	n.a.	2.1	−0.6	4.6	8.0	n.a.
February	2.8	0.6	3.5	−0.1	n.a.	2.2	−0.6	1.2	7.9	n.a.
March	3.2	1.1	2.6	−0.7	n.a.	2.1	−0.7	1.7	9.8	n.a.
April	3.2	0.9	3.4	−0.6	n.a.	2.8	−0.7	1.3	7.7	n.a.
May	3.0	1.1	2.6	−0.6	n.a.	2.3	−0.7	1.1	11.8	n.a.
June	3.1	1.5	2.6	−0.5	n.a.	2.5	−0.7			n.a.
July	3.2	1.7		0.1	n.a.	2.0				n.a.
August					n.a.	1.9				n.a.

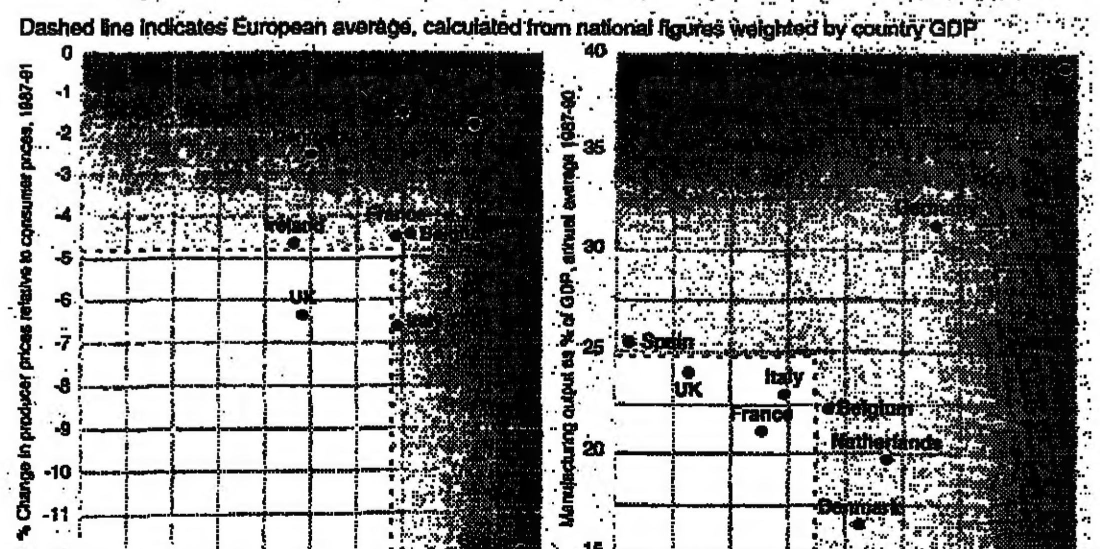
	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3	102.5	97.2	104.5	101.5	101.9
1987	100.1	95.1	108.0	107.0	126.0	105.9	97.8	107.8	103.0	102.1
1988	101.4	96.2	113.0	107.0	126.2	108.8	102.8	111.1	104.0	99.3
1989	104.2	99.3	117.0	108.0	122.6	112.6	108.4	115.4	105.5	95.6
1990	107.0	101.0	124.0	110.0	126.6	116.4	107.1	120.6	110.0	100.6
1991	110.7	103.4	132.0	115.0		120.0	105.6	125.6	114.0	
3rd qtr.1991	4.1	2.6	n.a.	4.6		3.0	−1.5	n.a.	3.6	
4th qtr.1991	3.9	2.4	n.a.	6.6		2.9	−3.6	n.a.	2.7	
1st qtr.1992	4.3	2.0	n.a.	4.5		3.1	−3.1	n.a.		
2nd qtr.1992	4.5	2.0	n.a.			3.1		n.a.		
August 1991	4.1	2.7	–	6.4	n.a.	3.0	n.a.	–	n.a.	n.a.
September	3.9	2.6	6.4	5.5	n.a.	2.6	n.a.	4.3	n.a.	n.a.
October	3.5	2.3	–	5.5	n.a.	2.5	n.a.	–	n.a.	n.a.
November	4.2	2.5	–	5.4	n.a.	3.0	n.a.	–	n.a.	n.a.
December	4.2	2.6	6.3	9.0	n.a.	3.1	n.a.	4.1	n.a.	n.a.
January 1992	4.0	1.6	–	4.5	n.a.	2.9	n.a.	–	n.a.	n.a.
February	4.3	2.0	–	3.6	n.a.	3.0	n.a.	–	n.a.	n.a.
March	4.8	2.5		5.4	n.a.	3.2	n.a.	3.6	n.a.	n.a.
April	4.6	1.9		5.4	n.a.	3.1	n.a.	–	n.a.	n.a.
May	4.6	2.0		1.7	n.a.	3.1	n.a.	–	n.a.	n.a.
June	4.3	2.0			n.a.	3.0	n.a.	3.5	n.a.	n.a.
July	3.3	1.1			n.a.	2.9	n.a.		n.a.	n.a.
August	3.5				n.a.		n.a.		n.a.	n.a.

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4	103.4	104.3	107.7	104.5	92.0
1987	111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6
1988	116.5	106.6	118.4	109.8	101.9	113.0	113.2	126.2	106.9	96.8
1989	124.2	113.1	125.6	112.1	109.2	121.8	119.0	137.2	113.6	95.0
1990	131.8	117.8	134.7	118.8	117.2	133.3	126.0	150.1	123.3	96.3
1991	140.3	121.7	147.9	131.2		141.2	133.0	162.4	133.5	
3rd qtr.1991	6.4	3.1	10.7	12.8		4.8	5.5	7.8	6.9	
4th qtr.1991	6.1	2.1	10.6	12.7		4.2	5.0	7.6	5.2	
1st qtr.1992	5.6	1.4	9.2			4.1	4.5	6.6	4.5	
2nd qtr.1992	6.5		8.0			4.2	3.6	6.0	1.7	
August 1991	6.3	2.9	10.9	n.a.	n.a.	4.7	5.5	8.3	7.8	n.a.
September	6.2	2.6	10.6	n.a.	n.a.	4.1	5.4	7.5	6.1	n.a.
October	6.1	2.2	10.8	n.a.	n.a.	3.7	5.0	8.3	6.6	n.a.
November	6.2	2.3	10.7	n.a.	n.a.	4.3	5.1	7.8	4.2	n.a.
December	6.0	1.9	10.4	n.a.	n.a.	4.5	4.6	7.2	4.7	n.a.
January 1992	6.1	1.3	9.4	n.a.	n.a.	4.1	4.5	7.5	5.1	n.a.
February	5.3	1.5	9.1	n.a.	n.a.	4.1	4.4	7.8	2.8	n.a.
March	5.5	1.4	9.1	n.a.	n.a.	4.0	4.5	10.3	5.5	n.a.
April	5.5	1.8	8.8	n.a.	n.a.	4.3	3.8	5.0	0.1	n.a.
May	5.7	2.1	4.6	n.a.	n.a.	4.3	3.5	7.0	2.6	n.a.
June	6.4		4.7	n.a.	n.a.	3.9	3.5	5.9	2.4	n.a.
July	5.4			n.a.	n.a.	3.7	3.4			n.a.
August	5.2			n.a.	n.a.					n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Spotting European currencies in the uncompetitive zone

Dashed line indicates European average, calculated from national figures weighted by country GDP



Source: Datastream, FT calculations

Devaluation candidates if the ERM realigns

EUROPE'S finance ministers are adamant. There are no plans for a realignment of currencies within the European exchange rate mechanism. But the markets have not been convinced, as the weakness of sterling and the lira and the very high level of Italian interest rates demonstrates. If a realignment makes no sense, why are the markets so nervous? And if it would help, why are finance ministers so stubborn?

The currency markets are old hands at the devaluation game. They know that most devaluations lead directly to higher inflation. And while commitment to the ERM parities is supposed to preclude the inflation option, the markets also know that inflation is the normal escape route for economies saddled with heavy public or private debts.

Yet the exchange rate is not solely a tool for monetary policy. The interaction of the exchange rate and the level of domestic prices also determines industrial and export competitiveness and profitability. If the internationally fixed price of a traded good is DM2.95 or £1, but the domestic price of labour and other non-traded inputs needed to make it is £1.20, then the manufacturer will be unprofitable and will go out of business. This ratio of non-traded goods prices, largely wages, to traded goods prices is known as the real exchange rate.

Too high a real exchange rate spells trouble. But what is too high? Measuring competitiveness is a tricky business. But the two charts offer an unscientific attempt to discover which countries currently have a competitiveness problem within Europe.

The left-hand chart shows two indicators of industrial profitability: the fall in producer prices relative to overall consumer prices and the rate of return on capital over the period 1987-1991. The dashed line shows the weighted European average for each measure.

Below average spells competitiveness problems: and the UK is the only country which has depressed profitability on both measures. UK producer prices have fallen by 6.3 per cent relative to consumer prices since 1987 compared with 4.5 per cent in France and only 1.5 per cent in Germany, implying a tighter squeeze on the profits of UK manufacturers. Italy has a similar fall in relative traded prices but a higher level of business profitability. Spain's high rate of manufacturing productivity growth explains both its high profit rate and the fall in traded goods prices relative to less productive services.

Depressed profitability can lead to a shrunken manufacturing sector and persistent trade problems. Germany's profitable manufacturing sector is large and delivers above-average trade surpluses as a percentage of gross domestic product as the right-hand chart shows. But the UK, Italy and France have smaller manufacturing sectors and persistent trade deficits relative to the European average.

The UK and Italy, and possibly France, probably needed a real exchange rate devaluation in the late 1980s. But France, unlike the UK or Italy, has been suffering slow economic and real wage growth for a number of years in order to reduce the relative price of non-traded goods and rectify its competitiveness. France has eschewed the alternative: a rise in the relative price of traded goods via a devaluation, because of the risks of re-igniting inflation. The UK and Italy still have all the pain to come. And devaluation is a tempting risk. But do not tell the markets.

Edward Balls

FARNBOROUGH AIR SHOW

Airbus delays launch of new A319 airliner

By Paul Betts,
Aerospace Correspondent

AIRBUS INDUSTRIE, the European aircraft consortium, has been forced to delay the launch of a smaller derivative of its A320 narrow-body aircraft until the end of this year, or possibly next year, because of the financial difficulties of airline customers.

Although the European consortium has launched a marketing campaign with seven airlines, Mr Jean Pierson, the Airbus chairman, said yesterday that the consortium would not achieve its original target of securing sufficient commitments for its new A319 airliner by the end of this month.

The A319 is designed to expand the Airbus narrow-body airliner family with a 125-feet shortened derivative of the 150-seat A320.

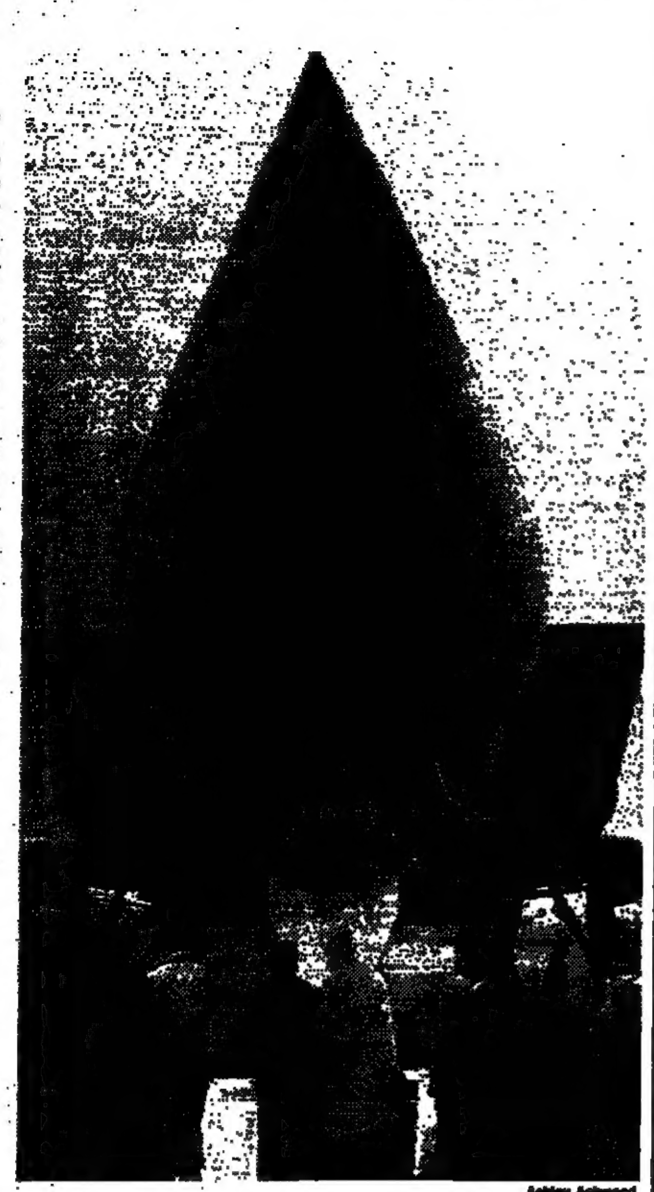
The delay in the launch of the A319 reflects the continued recession in the commercial jet market caused by the slump in the airline business and the financial plight of world airlines.

Mr Pierson acknowledged at the Farnborough Air Show yesterday that Airbus had underestimated the length and breadth of the airline industry recession.

Airbus would have to review its production programme before the end of this year. However, Airbus did not expect to be forced to make drastic production cuts because it had launched a production adjustment programme 18 months ago, Mr Pierson said.

Airbus expects to deliver between 163 and 165 new aircraft this year, roughly similar to the 163 delivered last year. Mr Pierson said sales would show a modest increase from US$7.4bn in 1991 to US$7.5bn this year.

Airbus also expects to show a similar operating surplus of around US$250m this year, as last year. By the end of this year, Airbus order backlog is expected to total around 900 aircraft.



Ashley Ashwood

POINT of interest: the TU22 M3, the Russian Backfire Bomber

● French efforts to sell Mirage combat aircraft to Taiwan are holding back a $1.5bn (£750m) deal to sell European Airbus wide-body aircraft to the People's Republic of China.

Mr Pierson, Airbus chairman, said yesterday that he hoped to sign a firm deal with China for the sale of six A300-600 and six A330 jets by the end of this year.

However, the deal was being delayed because of "political problems between two governments".

● The New Rolls-Royce-engined Russian aircraft, the Tupolev Tu 204-200, has received enquiries about possible purchases from at least one western carrier, understood to be Federal Express, the US air cargo specialist, writes Danny Green.

Writing the rules for jeux sans frontières

Lengthy border passport checks may be a thing of the past. **Tim Burt** reports

NEW technology and initiatives to ease border controls could make "Her Britannic Majesty's" demand – inscribed in every British passport – for passage "without let or hindrance" a thing of the past.

From one end of the European Community to another, frontier formalities are being lifted. Brussels is encouraging member states to allow unhindered travel without officials giving even a cursory glance at passports.

Britain will not be so accommodating. The government last week reserved the right to scrutinise documents at ports of entry, although it has pledged to relax controls on EC nationals. Community officials are trying to solve the British dilemma: how UK officials can identify EC citizens without queues and delays at passport desks.

Travel industry analysts say the problem offers Britain the opportunity to use new technology to ease immigration procedures not only for Community nationals but also for frequent visitors from countries such as the US and Japan.

Mr Dan White, an analyst for County NatWest, said the Home Office should pursue a scheme pioneered at Amsterdam's Schiphol airport, where passengers can avoid queues by using *"smart cards" which* can be read by immigration computers.

Dutch travellers who use the airport at least five times a year can opt for a card containing passport and fingerprint details. The software has been developed by AND of Rotterdam.

BAA, the UK airports operator, is discussing the introduction of such systems with the Home Office but says it could be some time before smart cards are available to British travellers.

Immigration officials are also looking at an American scheme which is due to undergo tests at New York's JFK and Newark airports next month. It relies on biometric technology, which stores the "hand geography" of frequent travellers on government computers.

At US immigration, notorious in the past for delays, pass*ports of computer-registered* passengers will be scanned by a computer, while a second system reads their palms to verify that the passport is not being used by another person. The new European Community passportswill be compatible with this system.

The scheme could cut waiting times at airports, but British officials believe it would be costly and difficult to introduce at seaports.

The Home Office is co-operating in a separate US initiative to ease congestion for airline passengers crossing the Atlantic. From next year all passengers from London's Heathrow or Gatwick airports to the US will pass through US immigration before leaving Britain.

The move is based on a scheme launched at Shannon in the Irish Republic in 1988 and follows extensive tests in the UK last year.

Mr Richard Kenney, chief of *public affairs of the US Immi*gration and Naturalisation Service in Washington, said the system would enable passengers to by-pass immigration queues at US hubs.

The move has prompted calls for reciprocal arrangements in the US for travellers flying to Heathrow, where the arrival of several transatlantic flights between 7am and 9am can lead to severe pile-ups at passport control.

"We'd like to see the same pre-inspection immigration in the US," said Mr Joe Brancatelli, executive editor of *Frequent Flier*, the New York magazine published by Official Airline Guides.

"There are a lot of complaints about Heathrow," he added. "The lines can be impossible and Paris can also be nasty. We haven't seen advances that should have been in place five or six years ago. Only Frankfurt seems to *be efficient."*

In London, minimum standards introduced by the Home Office for passport control show US passengers will continue to face longer delays than their EC counterparts.

Home Office officials said they would consider proposals to pre-inspect passports of UK-bound passengers at departure gates in the US. But an airline would have to apply for such a scheme before formal inter-government negotiations could begin.

Britain in brief

TUC may face split over union

Plans by the Trades Union Congress to readmit the maverick electrician's union, the EETPU, appeared last night to be running into difficulties as delegates gathered for the start today of the 124th annual TUC congress in Blackpool.

Several large unions decided that they were willing to back a resolution imposing tough conditions on the readmission of the electricians. Both the EETPU and the Amalgamated Engineering Union have said the conditions are unacceptable. Failure to agree terms for the EETPU's readmission would lead to a damaging split among trade unions, with the possibility that the AEU could join its partner outside the TUC.

General unions form close links

The leader of the GMB general workers' union predicted a merger with the TGWU general union as he announced plans for a closer relationship between the two organisations.

Asked about the possibility of a merger, Mr John Edmonds, GMB general secretary, said: "We are keen to move along this path carefully and slowly. Not many people believe there will be two large general unions in Britain by the end of the century."

Pay gap to widen - EOC

The gap between men's and women's earnings is set to increase unless the government forces employers to upgrade women's pay, according to an Equal Opportunities Commission report published today.

The decline of centralised collective bargaining in many sectors, the casual nature of the labour market, and the introduction of performance related pay in recent years were all working against the closing of the pay gap, said the EOC. The absence of a statutory minimum wage also continued to disadvantage women, it added.

Electricians to visit CBI

The AEEU electrical and engineering union is set to be the first to open a stall at the CBI employers' conference in November and three of the bosses have agreed to foot the bill.

AEEU general secretary Gavin Laird said the aim was to promote the union "at source". He said: "We want to demonstrate the progressive face of trade unions to the collective face of employers."

Managers call for new exam

Britain's managers want A-levels replaced with a broader exam covering both academic and vocational subjects, according to a survey published today by the British Institute of Management.

A membership survey of the 80,000-strong BIM carried out last year reveals widespread dissatisfaction with the A-level, the principal examination for school leavers entering higher education in England, Wales and Northern Ireland.

Only 15 per cent wanted to retain the present A-level system, with 46 per cent calling for a new integrated programme of academic and vocational qualifications.

The BIM says that A-levels waste talent, by catering for less than 20 per cent of young people. A broader national qualification is needed which could be attained by a third of school leavers. It should run alongside vocational qualifications.

A-levels are a "major barrier" to raising overall skill levels in the UK and a "wasteful allocation" of government spending, according to the BIM.

Collapse seen in confidence

Consumer confidence in Britain has "collapsed" in the four months since the Conservatives' general election victory with household spending intentions at a lower level than at any time in the past 18 months, according to a survey published today.

In its latest quarterly survey of household economic confidence, PA Cambridge Economic Consultants (PACEC) said that the main uncertainty undermining consumer confidence appears to be the fear of increased interest rates.

"This has extremely serious implications for the prospects of an upturn in consumers' expenditure," the private sector economic research group said. "The very fact that an increase is possible is enough to dampen the likelihood of a recovery in consumption this year. If interest rates are forced up in practice the implications for economic recovery could be even more severe."

Satellite tv audience at 3m

More than 1m homes have acquired satellite television in the past year bringing the total for those able to receive multi-channel television to just over 3m, according to the FT Satellite Monitor.

It estimates that 73,000 satellite TV systems were sold or rented last month compared with 58,000 in July. Sales and rentals in August last year ran at about 12,000 a week.

THE WEEK AHEAD

UK COMPANIES

TODAY

COMPANY MEETINGS:
Bromsgrove Inds., National Motorcycle Museum, Coventry Road, Bickenhill, W Midlands, 12.00
Dalepak Foods, Fairfield Manor Hotel, Shipton Road, Skelton, York, 12.00
Slabe, The Dorchester, Park Lane, W., 12.00
Templeton Emerging Markets Inv. Trust, Templeton House, Atholl Crescent, Edinburgh, 10.00

BOARD MEETINGS.
Finals:
Black (Peter)
Interims:
ASW
Brammer
British Vita
Burford
Calderburn
Claremont Garments
Fairey
Frost
Goodhead
Hewitt
Inchcape Justitia
Kynoch
Pentland
Perkins Foods
Rugby
Scholl
Suter
WSP Hldgs.

TOMORROW

COMPANY MEETINGS.
Birse, The Brewery, Chiswell Street, E.C., 12.00
Enterprise Computer, 4, Broadgate, E.C., 3.00
Kalamazoo, Northfield, Birmingham, 11.30
Mansfield Brewery, Civic Centre, Mansfield, 12.00
Oceonics, Chartered Insurance Institute, 20, Aldermanbury, E.C., 10.30
PowerGen, National Exhibition Centre, Birmingham, 2.30
Shield, 44, Worship Street, E.C., 11.30
Southern Electric, Bournemouth Intl Centre, Bournemouth, 2.30

BOARD MEETINGS.
Finals:
Adscene
Macro 4
Interims:
Baird (Wm.)
Bletchley Motor
Candover Inv. Trust
Croda Intl.
Fisons
Gaskell
Herring Baker Harris
Home Counties News.
IMI
Inaltera
Medeva
Nurdin & Peacock
Peek
Plantsbrook
Record Hldgs.
Ropner
Wimpey (George)

WEDNESDAY SEPTEMBER 9

COMPANY MEETINGS.
ASDA Group, Pudsey Civic Hall, Dawsons Corner, Pudsey, Leeds, 2.30
Hadleigh Inds., Novotel, Ipswich, 2.00
In Shops, 56, Colmore Row, Birmingham, 12.00
Fleming Int. High Inc. Inv. Trust, 25, Copthall Avenue, E.C., 12.00
Reject Shop, 20, Farringdon Road, E.C., 12.00
South Wales Electricity, St. David's Hall, Cardiff, 1.00
Wagon Industrial, Park House Hotel, Shifnal, Shropshire, 12.30

BOARD MEETINGS.
Finals:
British Thornton
Interims:
Assoc. British Ports
Avonmore Foods
Avonside
Boddington
British-Borneo Petroleum
British Dredging
Burnfield
CU Environmental Tst.
Caird
ECC
Evans Halshaw
Great Southern
Haden MacLellan
Hillsdown Hldgs.
Kleinwort Smaller Co's
MTM
P & O
Pacific Assets Tst.
Portals
Prudential Corp.
Savoy Hotel
Sherwood Computer
Stat-Plus
Sunleigh
Taylor Woodrow
Wilson (Connolly)

THURSDAY SEPTEMBER 10

COMPANY MEETINGS:
Anglo St. James, Southgate Street, Winchester, Hants., 10.00
Dixons Group, Royal Garden Hotel, Kensington High Street, W., 11.30
London Merchant Securities, Carlton House, 33, Robert Adam Street, W., 12.00
Northern Electric, Northumbria Centre, Washington, Tyne & Wear, 11.00
Stanley Leisure, Renshaw Street, Liverpool, 12.00
Triplex Lloyd, Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 12.00

BOARD MEETINGS.
Finals:
BZW Conv. Tst.
Glaxo
Sirdar
Interims:
AMEC
BTR
Beattie (James)
Blue Circle Inds.
British Mohair
Bunzl
Cadbury Schweppes
Coats Viyella
Commnl. Bank of London
Emess
Enterprise Oil
Erith
Ferrum Hldgs.
Gowrings
Hall Eng.
LWT
Laing (John)
Lloyds Smaller Co's Inv.
London Forfaiting
Matthews (Bernard)
Ocean Group
PCT
Parambe
Pendragon
RTZ
Rathbone Brothers
Reece
Sema
Severfield-Reeve
Shell Transport & Trading
TLS Range

FRIDAY SEPTEMBER 11

COMPANY MEETINGS:
FKI, Pennine Hilton National, Ainley Top, Huddersfield, W. Yorks., 12.00
Hampson Inds., Penns Hall Hotel, Penns Lane, Sutton Coldfield, Birmingham, 12.00
Property Security Inv. Trust, Butchers Hall, 87, Bartholomew Close, E.C., 12.00
Radiant Metal Finishing, 69, Fairfield Road, Bow, E., 10.30
Sutcliffe Speakman, Greyhound Hotel, Leigh, 11.30

BOARD MEETINGS.
Finals:
Arcadian Intl.
Walker (Thomas)
Interims:
Berry Starquest
Elys (Wimbledon)
Evered Bardon
Utd. Biscuits

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

TODAY
Bulmer (HP) 5.55p
Cardiff Property 0.65p
Electrocomponents 5.1p
Fleming Fledgeling Inv. 1p
Harris (Philip) 4.35p
Kembrey 0.15p
London County Freehold & Leasehold Props. 6¼pc Deb. 1985/95 £3.125
River & Mercantile Extra Inc. Tst. 1.96875p
Sainsbury (J) 7¼pc Deb. 1987/92 £1.625
3/ Gtd. Fltg. Rate Nts. 1997 £388.46

TOMORROW
Barclays Overseas Inv. Gtd. Fltg. Rate Nts. 2004 $129.17
Boots ADR $0.284
British Gas Intl. Finance 8⅛pc Gtd. Fltg. Rate Nts. 1999 $93.75
Enserch $0.05
Lex Service 4p
Lockheed $0.53
London County Freehold & Leasehold Props. 7¼pc Deb. 1991/95 £3.625
Natl. Australia Bank Sub. Var. Rate Nts. 2000 £387.70
Natl. Westminster Bank Var. Rate Cap. Nts. 2008 £280.78
Nationwide Bldg. Soc. Fltg. Rate Nts. 1995 £253.49
Ragby Fltg. Rate Nts. 1996 $28003.75
Rockwell Intl. $0.23
Sanwa Finance Gtd. Step-up Fltg. Rate Nts. 2002 $602
Svenska Intl. 12¾pc Bds. 1992 $637.50
Tenneco $0.40
Treasury 10pc 2003 £5

WEDNESDAY SEPTEMBER 9
Anheuser-Busch $0.32
Bank Leumi (UK) 4.5p
Barclays Australia Intl. Finance 11½pc Gtd. Nts. 1994 A$115
Bilick 3p
Domino Printing Sciences 2.4p
Investors Capital Trust 1.275p
Irish Telecommunications Invs. Ir£4.625
Kalamazoo 0.875p
Local Authority Short-Dated Bonds 10⅞pc Bds. 9/9/92 £5.438
London County Freehold & Leasehold Props. 7¾pc Deb. 1992/96 £3.875
Mansfield Brewery 0.6p
Priam Leisure 3.85p
Renold 7⅞pc Deb. 1992/97 £3.8125

THURSDAY SEPTEMBER 10
Abbey National Treasury Services 9⅞% Nts 1993 $93.75
Allied-Signal $0.25
Carclo Eng. 6.1p
Chevron $0.825
Debenham Tewson & Chinnocks 1.5p
Dun & Bradstreet $0.57
Eksportfinans 7⅝% Nts. 1993 $381.25
Do. 10½% Sb. Nts. 1992 DK1062.50
Exxon $0.72
Gen. Motors $0.40
Grace (WR) $0.35
Houston Inds. $0.75
IBM Cap. $1.21
IBM Credit 8% Dual Currency Nts. 10/9/95 Y80000.0
JLI 3p
Kawasaki Steel 6% Bd. 1997 Y120000.0
Lilly (Eli) $0.65
Mobil $0.80
Nippon Paint 6.1% Bd. 1997 Y162500.0
Sun Co. $0.45
Texaco $0.80
Time Warner $0.25
Travelers $0.40
Utd. Technologies $0.45
USX-Marathon $0.35
Warner-Lambert $0.51

FRIDAY SEPTEMBER 11
Aegon DFL1 10
Carlton Comms. $0.3162
Chase Manhattan Fltg. Rate Sb. Nts. 2009 $134 17
Cons. Murchison R0.15
Elandsrand Gold Mining R0.35
Fleming Intl. High Inc Inv 2.5675p
Greenfriar Inv. 2.1p
Grootvlei Prop. Mines R0.25
Hongkong & Shanghai Banking Prim. Cap. Und. Fltg. Rate Nts. (Ser.2) $83.89
Local Authority 10¼% Bd. 17/3/93 £5.125
M & G Recovery Inv. Inc 0.85p
Do. Geared Units 0.85p
Do. Package Units 0.85p
Monsanto $0.55
St. Helena Gold Mines R1
Southvaal R1.45
Svensk Exportkredit 12¼% Bd. 11/9/92 $637.50
Temple Court Mortgages Class A1 Multi-Class Mtg. Bckd. Fltg. Rate Nts. 2031 £280 11
Do. Class A2 £283.88
Templeton Emerging Markets Inv. Tst. 1.8p
Vaal Reefs Exp. & Mining R5
Western Deep Levels R1
Witan Inv. 2.7p
Woolwich Bldg. Society Fltg. Rate Nts. 1994 £252.15

SATURDAY SEPTEMBER 12
KG Intl. Trade & Fin. 7% Bds. 1996 Y525000.0

SUNDAY SEPTEMBER 13
Girozentrale und Bank der Osterreichische 12¼% Sb. Bds. 1993 £122.50
GMAC Australia 15¼% Nts. 13/9/93 A$151.25
Hydro-Quebec 12¾% Ln. 2015 £6.375
Trizec 9¾% Senior Db. 13/9/95 Ecu82.50

ECONOMICS

Financial markets to dominate

FINANCIAL market developments are likely to dominate the headlines further this week in the run up to France's September 20 referendum on the Maastricht Treaty and following last Friday's gloomy US employment report.

But some important inflation indicators will also be announced. In Britain, last month's retail price inflation will be published on Friday. August normally sees a rise in seasonal food prices and certain shop prices as summer sales end. However, only a very courageous retailer would have raised prices significantly last month when lack of consumer confidence continued to keep people away from the high streets.

As a result, analysts expect only a modest month-on-month rise following the 0.4 per cent fall in the RPI in July, the sharpest monthly fall for 25 years.

US producer price inflation is expected to show a similarly subdued trend after prices rose by just 0.1 per cent in July. With consumer confidence and demand remaining low, US manufacturers are finding it difficult to raise prices, a situation that is unlikely to change in the near future.

Other economic highlights of the week follow. The figures in brackets are the median of economists forecasts, from MMS International.

Today: UK, July credit business (down £50m); housing starts and completions; week long annual conference of Trades Union Congress begins in Blackpool. Switzerland, Group of 10 central bank governors hold monthly meeting in Basle. US, markets closed for Labour Day holiday.

Tomorrow: Switzerland, EC central bank governors meet in Basle. US, July consumer credit (down $1bn). Germany, second quarter GNP for eastern Germany.

Wednesday: US, July wholesale trade. Canada, August housing starts, July motor vehicle sales, June wages and salaries.

Thursday: US, August monthly M1 (plus $11.9bn), M2 (plus $6.6bn), M3 (plus $8.7bn); Money supply for week ended Aug 31; initial claims for week to Aug 29 (395,000); 1992 real capital spending. UK, CBI distributive trades survey. Australia, August unemployment (11 per cent, seasonally adjusted), August employment (down 20,000 adjusted); July retail sales (up 1 per cent).

Friday: UK, August retail prices index (up 0.3 per cent on month, 3.8 per cent annually), excluding mortgage interest payments (up 4.2 per cent on year); August usable steel production; second quarter construction output. US, August producer prices (up 0.2 per cent on month), excluding food and energy (up 0.2 per cent on month), July home completions.

During the week: Germany, July retail sales (down 4.5 per cent on year), July capital and long term capital accounts. Netherlands, August consumer prices (up 0.3 per cent on month, 3 per cent on year). Sweden, August unemployment (5.4 per cent). Australia, July money supply, September Westpac/MI consumer sentiment index.

Emma Tucker

RESULTS DUE

GLAXO Holdings, the pharmaceuticals group, is likely to show on Thursday pre-tax profits for the year to June 30 of £1.4bn-£1.46bn (£1.28bn a year earlier) and a dividend of 16p-20p a share (14p). Sales of Zantac, the ulcer drug, almost half its turnover, have been eroded by Astra's competing Losec and other drugs in Europe. But Zantac's US and UK sales have held up.

Fisons, the pharmaceuticals and scientific equipment company, is expected to announce tomorrow interim pre-tax profits of £35m-£43m (£95.2m). Forecasts of the dividend range from a rise to 3.6p to a cut. The wide range of estimates follow a company warning in June that first-half profits would be less than half last year's figure.

Prudential Corporation, the insurance and financial services group, is expected to post increased interim pre-tax profits on Wednesday to £225m-£240m (£170m). Life insurance profits are expected to increase marginally. But its general insurance business should produce sharply reduced losses.

Peninsular and Oriental Steam Navigation Company, the shipping and property group, is expected to report on Wednesday interim pre-tax profits of £90-£95m, little changed from last time. The stock market will be watching if the dividend, which is likely to be uncovered, is maintained.

BTR, the industrial conglomerate, is forecast to unveil on Thursday a slight increase in interim pre-tax profits to about £440m from £428m. News of economic recovery or the further rationalisation of Hawker Siddeley, acquired last November, will be eagerly anticipated.

Cadbury Schweppes is expected to justify the same day its premium rating in the food sector by reporting interim pre-tax profits of £115m-£120m (£111.5m). A modest dividend increase is also expected.

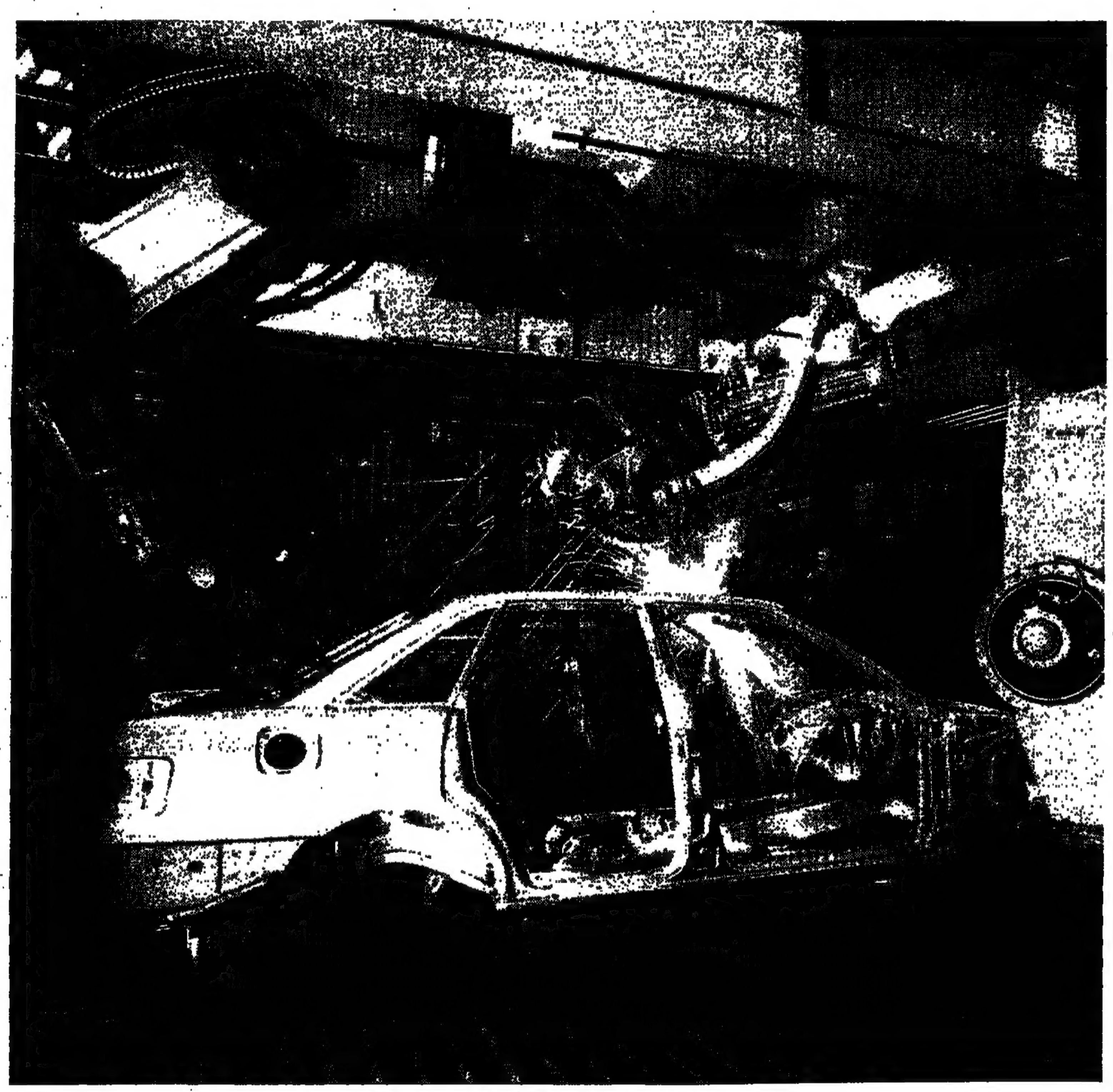
United Biscuits is expected to present a less happy picture with its interims on Friday. Cost-cutting and improved efficiency have helped the company limit the impact of the UK recession but fierce competition continues for Keebler, its US biscuit and snacks subsidiary. Pre-tax profits of £70m-£75m (£86.1m) are forecast.

Shell Transport and Trading is expected on Thursday to announce an increase in its interim dividend to between 9.1p and 9.4p from 8.9p last year. Royal Dutch is seen increasing its dividend to Fl 3.65 from Fl 3.45.

On Wednesday **Hillsdown Holdings** is expected to show only a small rise at the pre-tax level from last year's £77.6m, but the interim dividend should be safe. Operating profits will be down but the saving on interest after last year's rights issue will offset that.

Thursday sees results from **Booker**, which has changed its reporting period. On the new basis, profits should be up a touch on last time's £32.9m – perhaps to £33.5m. But on the old basis including June, profits are expected to be down.

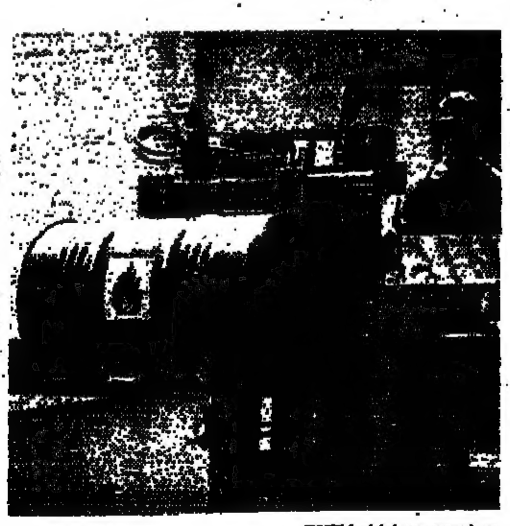
Kevlar* makes Audi engines last longer. Tyvek* gives every Audi a lifetime identity.



Every Audi is unique. Even cars of the same model have differences in equipment, and keeping track of them is vital. At Audi these equipment differences are encoded and printed on adhesive labels which are then placed inside the boot and in the vehicle's service handbook. Any subsequent repairs or parts replacement are thus made much easier.
To make sure this system runs smoothly Audi uses labels made only from Du Pont TYVEK, because of its tremendous wear resistance and other exceptional properties. Like TYVEK, KEVLAR is also made by Du Pont, and is no stranger to automotive manufacturers; they've known about the merits of this high strength, low weight fibre for years. KEVLAR, for example, is used to reinforce cylinder-head gaskets and cooling system hoses in high-performance engines. It is also widely used in brake pads, clutch linings and tyres.

The many strengths of Tyvek.
In developing TYVEK Du Pont was able to combine many of the best properties of paper, fabric and film. This unique spunbonded polyethylene material is extremely light, yet strong and tear resistant. TYVEK shrugs off water and most chemicals, resists puncturing, is approved for contact with foodstuffs, and retains its remarkable properties down to − 70 °C. It is also highly printable, with a smooth, white surface that's suitable for all processes including computer printers. TYVEK is easily recycled or disposed of, with no adverse environmental effects.

Lost label... big problem.
Labels that get torn, worn or waterlogged can't be read – and an unreadable label is as useless as no label at all. For instance, what's the point of urgently shipping spare



TYVEK for labels you can rely on.

parts if no-one knows what they are? And chemicals that have lost their identity can be downright dangerous if wrongly stored or handled. It is because of the exceptional physical and chemical resistance of TYVEK and the labelling integrity it provides, that it is specified by such leading companies as Ciba-Geigy, ICI and Schering.

With Tyvek the way ahead is clear.
Paper road maps, city plans and marine charts are great when they are new. But after a while they start to tear at the edges and fall apart at the folds... and if you get them wet they're simply unreadable.
But maps and charts printed on TYVEK are different; they can be folded and unfolded endlessly, and can't soak up water (drop one overboard and it will not only float, it'll stay completely readable). Even after years of use a map printed on TYVEK will still be pointing the way.

Maps made of TYVEK are tear-resistant and waterproof.

This remarkable durability is why TYVEK is specified by many leading map makers, including Edison Cartographiques, Maritimes and Delfino Editrice, and why the yachtsman's "Blue Book" of Mediterranean ports is printed on TYVEK.
Few things take more of a beating than children's books and games... and few materials can take the punishment better then TYVEK. Which is why, for example, Ravensburg Games use it to extend the life of their products.

Tyvek delivers, safe and sound.
When you send something by mail or courier you want it to arrive in the same condition as when it was sent.
Envelopes of TYVEK resist pilfering or accidental exposure of the contents through tearing, puncturing, bursting and abrasion. Add to these qualities their postage-saving light weight, water resistance and high-quality appearance, and it is little wonder that they are the primary choice of many banks, insurance companies and legal firms.
No surprise, either, that courier services such as Federal Express, and several postal authorities use envelopes of TYVEK for their important and urgent deliveries.

Packed safely.
TYVEK's special properties of strength, security, chemical and physical resistance and light weight offer many advantages to the packaging industry. Its versatility is useful, too: TYVEK can be printed, diecut, laminated, heat-sealed, bonded with adhesive and stitched. Its smooth surface is perfect for record and floppy disc sleeves, while its air permeability allows products to be gas sterilized, making it ideal for sterile packing applications.

Long-lasting legibility plus people protection.
Labels, envelopes and packaging are by no means the only uses for TYVEK.

The same advantages of strength and durability lend themselves to almost any application where the message must get through – display materials such as banners and posters, freight waybills and shipping documentation, ID cards and season tickets, wiring diagrams and instructional manuals... the list is almost endless.

TYVEK keeps valuable documents safe in transit.

And TYVEK protects people, too. Wherever there are hazardous work situations such as asbestos removal, chemical clean-ups, crop or paint spraying, or hospital surgeries and high-tech clean rooms, protective clothing made of TYVEK is available for a wide variety of applications.

Innovations from Du Pont.
KEVLAR, NOMEX* and TYVEK are produced by the Engineering Fiber Systems division of Du Pont, which also developed TEFLON*, TYPAR*, CORDURA* and high-strength Nylon. From house and home to air and space, these products have opened up new perspectives in countless areas and applications.
Du Pont is one of the world's leading research-oriented companies, with 39 production plants and laboratories in Europe alone.

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DU PONT

Catherine Milton looks at one company's experience of introducing an annualised hours system

Flexibility is all in a year's work

Joe Pluck cannot call his free time his own. "Whatever you are doing, however special the occasion, they can ask you to come in and work. It really is selling your soul to the company," he says. In January 1990, his employer, Van den Berghs & Jergens, a margarine-making subsidiary of Unilever, switched from calculating his hours per week to hours per year.

His total of 2,061 hours includes 282 which the company does not timetable. Pluck is paid whether he works the hours or not but he may have to work them at very short notice as stand-by for unexpected absence or surges in demand.

Pluck, a shop steward, recommended the annualised hours system and measures to aid flexible working to the 750-strong workforce. Since then, he has had some second thoughts, especially about being on stand-by, but both he and most employees broadly support the new system.

Van den Berghs & Jergens is typical of employers which introduce annualised hours. The transformation of working practices has been self-financing while the workforce has declined to 680. The company moved from five- to seven-day working, increased productivity and output while at the same time, it abolished the paid overtime which had added as much as 100 per cent to the basic pay of some employees.

The annualised hours system is spreading and now covers 6 per cent of British employees, according to the Department of Employment. The system was first introduced by continuous process manufacturers in paper and board, glass, cement and chemicals. Now, white-collar employers such as the Bristol and West Building Society and various media organisations are adopting it.

Andy Speak, personnel manager at Van den Berghs & Jergens, says: "We no longer have overtime working and we are using our assets to expand the factory." However a 1991 study by the Incomes Data Services research group found employee reaction to annualised hours was more mixed in spite of the advantages of a shorter working week and more predictable earnings.

At the margarine plant, the transformation has certainly been radical. In the first eight months of 1989, average overtime per head was between 48 and 66 hours a month. In the same period in 1990, the average number of stand-by hours, a form of pre-paid overtime, was 0.7 and 2.4 hours per person per month.

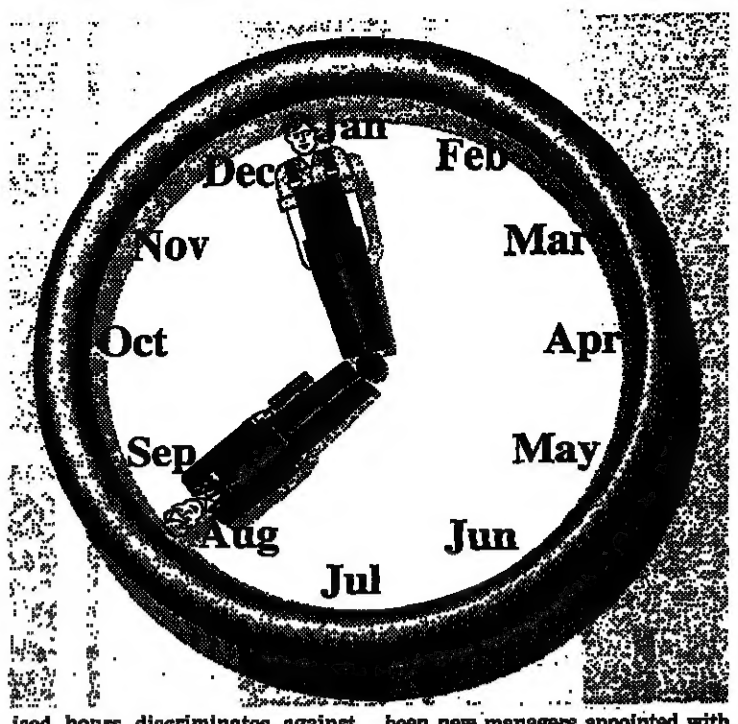
The unions estimate that about 40 per cent of employees, mainly those who did a lot of overtime, saw their earnings decrease – by between £200 and £3,000 a year. They were generally prepared to exchange cash for leisure time and the security of a regular monthly pay check.

Pluck, whose own earnings dropped by about £5,000 a year to £20,500, says: "We may have had high earnings before but it was no quality of life having to work all the time to maintain that income".

Most early glitches in the scheme were associated with the unpopular stand-by system. Attempts by management to call in people to cover for people on training courses, when the company began a total quality management course, were met with fury.

Originally employees rostered on stand-by were required to stay by their telephones. Many found good reasons why this was impossible. Eventually the company introduced a freefone and employees on stand-by are now required to telephone the plant regularly.

As Danny Pyman, also a shop steward, says: "It is very difficult to make it clear to people that they have already been paid for the extra 12-hour shift they were called in for at very short notice and which has ruined their plans for a family barbecue."



IDS says workers at some companies have complained that annualised hours discriminates against part-time workers with family responsibilities, but nobody believes this has been a problem at Van den Berghs and Jergens. However, groups of specialist employees have found the stand-by system particularly onerous. A more fundamental problem, but not one specific to annualised hours agreements, has been new managers appointed with little understanding of the spirit of the original agreement, say the unions.

Pyman, who was involved in negotiating the original deal, speaks of the atmosphere at the time with a nostalgic reverence: "It was a whole new way of life. They would trust us and we would trust them. For most of the 28 years I have worked for this company, I completely distrusted management and they completely distrusted me. But we were committed to a new start."

Pyman says the pioneering ethos led him to agree to the management's request that there should be some slack in the contract. "The personnel manager said to us that he didn't want everything written in tablets of stone and we agreed." It is a decision he now regrets saying that newly-appointed managers are sticking to the letter and not the spirit of the agreement.

Some older workers left because they were unable to cope with the weekend working and their pensions were pegged to the higher basic wages they were paid when overtime ended. Similarly, employees who fall ill no longer face a dramatic drop in income because sick pay reflects earnings more accurately.

Pyman is clear that he began negotiations because he feared the consequences of outright rejection and hoped to minimise job losses. Today he is facing early retirement which the company says is voluntary. He says the contraction in the workforce following increased efficiency from the new package has given the management the grounds to argue that the plant no longer needs full-time union officials: "We sold the damn deal to a sceptical membership, loyalty is poorly rewarded," he says.

Gastronomic Edinburgh, behind closed doors

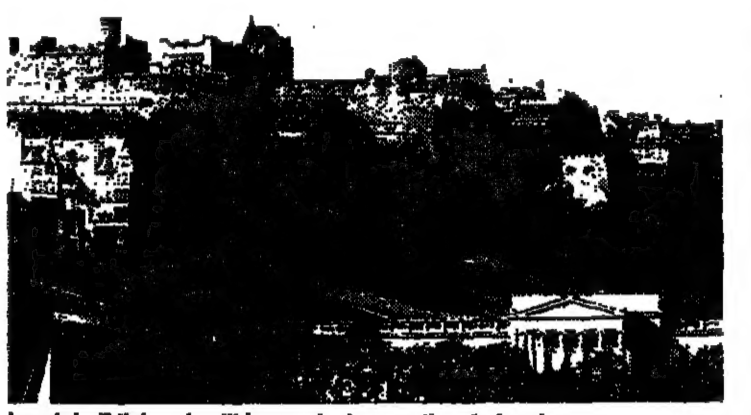
James Buxton says discretion is called for if you do not want to be recognised by other lunchers

Holding a business lunch in a restaurant in Edinburgh or in Glasgow can be a hazardous undertaking: it could cost you business. The Scottish business and financial communities are so small that you are bound to be recognised by other lunchers. You may not wish to have your lunch with a potential client witnessed by a rival.

The danger is particularly acute for the dozen-odd fund management companies based in Edinburgh, whose staff ought to be thronging the city's eating places. As Ross Lidstone, partner in Baillie Gifford, explains: "I wouldn't dream of taking a new client to a restaurant in Edinburgh. Someone would recognise us and the game would be up."

Baillie Gifford and other companies have private dining rooms into which guests can be sprited with little fear of being seen by the opposition. The same caution is exercised by lawyers, bankers and other deal-makers engaged in any entertaining where the identity of the lunchers could be significant.

Of course the same danger exists in London but although important lunches there take place in private, eating in restaurants is less risky because there are far more people and many more restaurants. Even the most gregarious Scot who has worked in both London and Scotland will confess that he lunches out much less in Edinburgh and Glasgow than in London.



Lunch in Edinburgh will be much cheaper than in London

But there are still plenty of restaurants in the Scottish cities, and except during the Edinburgh Festival you can usually get a table in Edinburgh at short notice. The atmosphere (especially in Edinburgh) may be rather more restrained than in London and Scots may be a little brisker than the English in getting down to the subject in hand. But a Scottish business lunch is still likely to be aimed at making acquaintances and cementing relationships rather than doing deals.

"It oils the wheels," says Giles Weaver, of Murray Johnstone, the Glasgow fund managers, "enabling you to get the nuances that you may not get at a hard meeting in a business-oriented room".

The meal itself is likely to be light but sustaining, and is unlikely to be overtly Scottish, though locally produced meat and fish are emphasised. Having a single glass of wine rather than a bottle is becoming more common, for those people who do not confine themselves Calvinistically to Highland Spring or Strathmore mineral water (the Scottish equivalents of Perrier).

The meal will be much cheaper than London, better value for money and a tip of not more than 10 per cent will usually be well received. An excellent three course lunch for two with wine at the Grill in the Balmoral, Edinburgh's new five star hotel, costs less than £40.

Gourmets might go to L'Auberge, a French restaurant which a Michelin inspector would think upheld his national standards. The top restaurant in town is probably the Pompadour at the Caledonian hotel, but people only go there when they want to be really grand.

A special pleasure is Martins, small, bright, personal (Martin Irons, the proprietor, is always in friendly attendance) and with an emphasis on herb flavourings, organic vegetables and Scottish cheeses. It has a private room for which there is no extra charge for those wanting discretion.

For more bustle there is the Oyster Bar, off St Andrew's Square, a fish restaurant with no hang-ups about using butter and cream, heavily patronised by people from the Royal Bank of Scotland head office next door.

The fact that someone with a little knowledge of the Scottish business scene should be able to put a name to a fair number of the lunchers in one of the good restaurants adds to the spice of the occasion.

Nowhere would that be easier than in the New Club, the Edinburgh club where the high command of the Edinburgh establishment and lawyers, bankers, accountants and art gallery directors all sit down together for lunch. "You're not supposed to discuss business but people do," says an informant.

In Glasgow a jollier atmosphere is noticeable the moment you step off the train. The financial community congregates at Rogano, an art deco restaurant in Exchange Place. If you want to experience the new Glasgow, go to the Ubiquitous Chip in the city's West End; for luxury and superb food go to One Devonshire Gardens, a sumptuous small hotel in the same area. Glasgow's equivalent of the New Club is the Western Club, full of advocates and men of affairs. The food may be a little stodgy but each day after lunch there are two or three tables of bridge players, where people cut in at end of a rubber.

Menu

Warm salad of langoustine, smoked bacon and pine nuts

Loin of venison with potato pancake

Blackcurrant and raspberry delice

Strathmore mineral water

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AN OPEN LETTER

TO ALL EUROPEANS

On September 20th, the French people will vote on the Treaty of Maastricht.

We have called upon them to vote "No", and we hope that our voice will be heard.

We would like to make it clear to all Europeans that a "No" vote from France on Maastricht would not signify a "No" to Europe. It would rather be a "No" to a bureaucratic vision of Europe.

The French have actively contributed to the construction of Europe for over forty years. Yet France seeks to build a Europe out of respect for the people comprising it.

We firmly believe that the British people share this view.

We are confident of the goodwill that exists amongst all Europeans, and we are thus confident in the future of Europe.

We feel it important that you be aware of our position.

Charles Pasqua
Former Minister

Philippe Séguin
Former Minister

Co-Presidents — Rassemblement pour le Non à Maastricht

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PEOPLE

Chope's public practice

Christopher Chope, a former junior minister, at the Department of Transport, has joined the management consultancy department of accountants Ernst & Young.

Chope, who lost his conservative parliamentary seat in Southampton at the last election, will use his knowledge of government to help expand the firm's public sector practice .

He will work for Ernst & Young two days a week, fostering its growing role in policy formulation and management in government organisations.

Ever the politician, Chope says: "I hope to contribute to improving business performance in the public sector and use my experience to help Ernst & Young apply these ideas more effectively for the eventual benefit of the taxpayer."

Clive Williams, head of consulting, explained he had known Chope for some while. "He is very creative and full of ideas." Williams hopes to build public sector work from 20 per cent to 35 per cent of management consultancy fee income over the next few years.

Airport shops take off

BAA's commitment to retailing as a core source of future growth has been sealed by the promotion of Barry Gibson, group retailing director, to the main board, with the airport operator aiming to earn more than half of its revenue from Gibson's area by the end of next year.

Gibson, 40, who joined BAA in 1989, worked initially as commercial director at Heathrow Airport. There he began the "value-for money" drive and also started to introduce "branded retailing concepts that the public recognises". At the end of last year, shortly after industry regulator CAA unveiled its pricing formula for BAA's traditional revenue source of airport charges, he was moved into a newly created job, in charge of group retailing.

While BAA cannot claim to remain unscathed by the recession, its captive audience of relatively high-spending consumers has helped to insulate it; half of the passengers passing through BAA airports are foreign, and of the domestic portion, over half are from the AB social groups.

With plans to add half a million square feet of retailing space between now and 1996,

Gibson says the thrust is to replace the anonymous Skyshops and the like with branded retailers and caterers.

Before joining BAA, Gibson had cut his teeth in retailing at Littlewoods and then at Burton, where he had been retail director of Top Shop. In 1983, he launched what he now refers to as a "me-too Top Shop", Surprise, a "typically 1980's BES enterprise" sold in 1987 to Barker & Dobson. He spent a year at Vivat Holdings, preparing Jean Machine for sale, before joining BAA.

■ David Bucks, a former deputy chairman of Hill Samuel Bank, has joined the board of troubled chemicals group MTM as non-executive deputy chairman.

Bucks, who retired from Hill Samuel in June 1991, says that despite the manifest problems, he is joining a virtually new management team of "very competent people who are well versed in the chemical industry".

He was introduced to chief executive Ken Schofield and chairman David Swallow through his old merchant bank, which has picked up MTM as a client since the management restructuring earlier this year.

Other non-executive directorships that Bucks, 58, has picked up since retiring include First Leisure and Dobson Park Industries. He is also chairman of Grosvenor Development Capital.

■ Hugh Hughes and Roger Hornett, European equity specialists who had been toying with the idea of launching their own boutique, have joined Société Générale, to set up a London brokerage unit. Société Générale Equities International (SGEI) will provide research, trading and sales for cross-border transactions in continental European equities.

Notwithstanding low trading volumes and highly uncertain times for Europe's bourses, Hughes, the new chief executive of SGEI, says SocGen is proceeding with its plan to pull together its capital market operations on the continent, thereby hoping to capture a slice of the "pan-European generalist" business. SGEI will be based in London rather than Paris, operating from the offices of, but remaining separate from, UK equities broker Société Générale Strauss Turnbull.

Hughes, 40, says the aim is to attract clients "who want to talk about Europe as a one market – and a lot of those clients still like to be managed out of London". The former European director of Savory Milln, who says his wife is French – "which means I speak a modicum of French" – had spent a year with Paribas in London after leaving Swiss Bank Corporation (which had acquired Savoury Milln). Roger Hornett, 45, formerly international director of James Capel, had moved on to the UK arm of Singapore-based stockbrokers Sassoon, but left last year.

The two were planning to set up their own business when SocGen approached Hughes to do some consultancy work, from which the new unit and two job offers emerged.

Non-executive directors

■ Chris French, a former director of information services at Woolworths, at CLARKE & TILLEY.

■ David Payne has resigned from GOODHEAD GROUP. He had handed over executive responsibilities to John Cooling in May.

■ Sir Christopher Laidlaw has resigned from REDLAND.

■ Roger Dickinson, md of Granada Rental Services, at PEGASUS.

■ Roland Jarvis, chief executive of Low & Bonar, at THE HIGHLAND DISTILLERIES COMPANY.

■ The Earl of Eglinton and Winton, chairman of Gerrard Vivian Gray, and Chips Keswick, chairman of Hambros Bank, at EDINBURGH INVESTMENT TRUST.

■ Bryan Cassidy, MEP for Dorset East and Hampshire West, at NYNEX CABLECOMMS WESSEX Limited.

■ Michael Burton, director of LIMNET, the London Insurance Market Network, at C.E. HEATH.

■ Anthony Winter, managing director of Hays Marine Services, at newly privatised MEDWAY PORTS Limited.

CONFERENCES & EXHIBITIONS

SEPTEMBER 8
ISSC- Seminar: Fighter Aircraft of the Future
International Seminars & Symposia Centre. Telephone: (+49) 228-6483-168 Telefax: (+49) 228-6483-200
LONDON

SEPTEMBER 14-17
FIRE 92
The national conference and exhibition for the whole fire protection profession. The Winter Garden, Eastbourne, Sussex
Contact: Jane Malcolm-Coe, FMJ International Publications Ltd
Tel: (0737) 768611. Fax: (0737) 761685
EASTBOURNE

SEPTEMBER 15-16
SEEBOARD Technology Fair
A two day exhibition and business forum at the Brighton Centre aimed at highlighting the expertise of small and medium sized companies and promoting technology transfer in its broadest sense by extending existing links between manufacturing companies, consultants and Universities. Dr Steven Hamblyn 0273 607896
BRIGHTON

SEPTEMBER 16
Retail Investments Regulation
The aim of the conference is to review retail regulation, how it will work in practice, the conduct of business in the new regime, commissions and approaches to training.
Enquiries: Financial Times
Tel: 071-251 9321 Fax: 071-251 4686
LONDON

SEPTEMBER 16
Investment and Export Opportunities - Indonesia
A major international conference on the opportunities and issues involved in the dramatic growth of Indonesia addressed by distinguished speakers from Indonesia, the Netherlands and U.K. Contact Wendy Orr at SGS Tel. 0276 691133
LONDON

SEPTEMBER 17-18
The Key Partnership - Accounting for the Future
The first national conference for employers and academics concerned with education and training of financial management. Contact Denice Howard at CIMA The Chartered Institute of Management Accountants National Employers' Group Conference. Tel: (071) 637 2311 Fax: (071) 631 5309
LONDON

SEPTEMBER 18-20
W.D. Gann Workshop/Seminar
By Les Clemens.
An exciting three day opportunity of instruction by one of the most successful Gann traders in America. This course is for Amateurs and Professionals alike. Call 0728-73413 or Fax: 0728-73656 for information pack.
LONDON

SEPTEMBER 20-22
Zero - 3.5 tonne Refrigerated Van Show
The Exhibition for companies affected by the latest UK and EC Food Hygiene Transport Regulations. Wembley Exhibition Centre. Contact: Lorraine Rogers, FMJ International Publications Ltd. Tel: (0737) 768611
Fax: 0737 761685.
LONDON

SEPTEMBER 21
Value Based Planning and Shareholder Value
Strategic Planning Society Conference. Concepts, techniques and UK experience of this emerging approach to increasing shareholder value. Key speakers: Joel Stern, Stern Stewart, New York; Kenneth Favaro, Marakon, London. Panellists: D.J. Houlder, Blue Circle; P. McNamara, Lloyd's Bank. Details:- Jo Hoyle, Strategic Planning Society 071 636 7737
LONDON

SEPTEMBER 21 – 22
The 1992 European Accountants' Forum
"Open Minds Open Markets...Open Risks." Within the EC and throughout Europe there are widely divergent views about the direction and the problems facing the accounting profession. Learn from the major players in the market. Contact: Anne McGlynn, Lafferty Conferences. Tel: (+353-1) 718022. Fax: (+353-1) 713594
LONDON

SEPTEMBER 23
Business Process Re-Engineering (BPR)
CBI/Develin & Partners conference, chaired by BRian Redhead, which examines the latest development in this new, emerging field through practical descriptions by organisations who have undertaken BPR reviews. Contact: Karen Trevitt, CBI Conferences 071 379 7400
LONDON

SEPTEMBER 23-24
Introduction to Bonds, Bond Futures & Bond Options
Day 1: Bond Markets, Redemption Yield, Yield Curves, Bond Futures; Day 2: Option Terminology, Option Pricing, CTD, Speculation, Hedging & Arbitrage. Venue: Cambridge Science Park, Cambridge. £345 (1 day only), £595 (both days). Contact: Gillian Beckett, Brady Financial Seminars. Tel: 0223 423250.
CAMBRIDGE

SEPTEMBER 24
London Chamber of Commerce and Industry North American Annual Lunch
The Honourable Raymond G H Seitz US Ambassador is guest speaker at the luncheon being held at the Dorchester Hotel, sponsored by World Trade Centre New York.
Contact: Ian Weatherhead
071 248 4444 Ext. 2057
LONDON

SEPTEMBER 24
Equalising Pension Ages: The 65 Option
Speaker: Chris Trinder, specialist adviser to the Social Security Advisory Committee on Equalising Pension Ages and Research Director of CIPFA's Public Finance Foundation. Chairman: Geoffrey Hulme, CB, Former Deputy Secretary, Department of Health. Enquiries to Gail Main on - Tel: 071 895 8823 Ext 255 Fax: 071 895 8825
LONDON

SEPTEMBER 28
An Introduction to Environmental Policy and BS7750
Restricted numbers workshop. Course tutor: Mrs Pamela Shimell, Managing Director, Industry & Environment Associates. Dinner at end of day with IEA clients who have/are implemented/ing total Corporate Environmental Policy. IEA Conference. Contact: Peter Shimell, Director of Administration.
Tel: 081 876 3367 Fax: 081 876 1674
LONDON

SEPTEMBER 29
INDIA - New Economic Order
CBI conference, in association with Masons Solicitors, which considers the business opportunities resulting from recent radical reforms in India to industrial & trade policies. Speakers including British & Indian Ministers and Leading businessmen.
Contact: Nicky Cann, CBI Conference 071 379 7400
LONDON

SEPTEMBER 30
ESTABLISHING FUTURES AND OPTIONS UNIT TRUSTS
A detailed review of the Regulatory, Legal, Product and Accounting areas essential in setting up a UK Futures and Options Unit Trust. Parallel course in Luxembourg on 19 November. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
LONDON

SEPT 30 - OCT 1
Money Market Operations for Public Bodies and Institutions
A practical course on Money Market Operations including the instruments, dealing, use of credit ratings, control and legal aspects. Essential for local government and corporate treasurers and bankers to public bodies. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
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OCTOBER 1
Sharing for Success
Share ownership provides a means of involving employees and directors in the future success of the business. This IOD seminar includes case-studies, various scheme types and the effects of legislation for both listed and unlisted companies. Enquiries:-Director Conference 071 730 0022
LONDON

OCTOBER 5
The City Crude Oil and Oil Product Trading Conference
Skinners' Hall in the City of London. Cityforum Ltd in association with the International Petroleum Exchange of London. Sponsored by Andersen Consulting, Clifford Chance, IBM UK Ltd, The Wall Street Journal Europe and Telerate. Enquiries to: Lindsey Neil, Tel: 0225-466744 Fax: 0225-442903
LONDON

OCTOBER 5-6
A TRUSTEE BRIEFING FOR UNIT TRUSTS
A complete review of all Unit Trust Operations that Trustees must monitor including Legal Responsibilities, Regulation and Compliance, Taxation, Trustee Operations in practice, Pricing and Dealing, etc. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
LONDON

OCTOBER 5-6
BASICS OF TRADE FINANCE
A basic course in Trade Finance and its documentation for junior management and staff. Excellent as an introduction or comprehensive review for new staff recently transferred to Trade Finance. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
LONDON

OCTOBER 5-6
Latin American Capital Markets
To review growth prospects for the Latin American economies: Raising new equity, issuing new debt and stock exchange reform.
Enquiries: Financial Times
Tel: 071-251 9321 Fax: 071-251 4686
LONDON

OCTOBER 6-7
INPOWER 92
The Independent Power Generation Exhibition and "Generating Independence" Conference. KEMPTON PARK EXHIBITION CENTRE, Sunbury-on-Thames, Surrey. Contact: Lorraine Rogers, FMJ International Publications Ltd Tel: (0737) 768611 Fax: (0737) 761685
SUNBURY-ON-THAMES

OCTOBER 6-8
Public Works and Europe
Top speakers at the British Public Works Association Conference will address the impact of a unified Europe at the National Agricultural Centre, Stoneleigh Park. Running in parallel is the BPWA Exhibition, a shop window for the public works industry's decision makers. Telephone: Jocelyn Marsh 0784 452748
WARWICKSHIRE

OCTOBER 7
Latin American Privatisation Programme
To assess the opportunities and risks of Latin American privatisation: Prospects for corporate restructuring and mergers and acquisitions.
Enquires: Financial Times
Tel: 071-251 9321 Fax: 071-251 4686
LONDON

OCTOBER 7
Strategy and Planning in the Corporate and IT Domains
A seminar in 3 sessions at the LSE for senior executives involved in Corporate strategy and the management and planning of information systems. Continuing 4 november, 2 December. Fee: £290. Contact: Short Course Office, LSE, Houghton Street, WC2A 2AE. Phone: 071-955 7227, Fax: 071-955 7676
LONDON

OCTOBER 8
THE SFA RULES - A Guide for Compliance Officers
A complete review of SFA regulations including the new rules for Compliance Officers. Also useful for Legal Advisers and Auditors. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
LONDON

OCTOBER 8-9
Know Your Competitors
Competitor Intelligence & Analysis. A practical two day seminar/workshop from the UK's No 1 specialists. Practical case exercises, successful case studies. Guest speaker who is head of a major company's intelligence unit. Contact Patricia Donnard, EMP Intelligence Service, Tel: 071-487-5665 Fax: 071-935-1640
LONDON

OCTOBER 8-9
Environmental Policy Development - BS7750 and Other Options
Residential course at country house hotel exclusively booked for course participants only. Incorporating wildlife ramble on first evening. Restricted to 9 workshop delegates at director level. Course tutor: Mrs Pamela Shimell, Managing Director, Industry & Environment Associates. Contact: Peter Shimell, Director of Administration.
Tel: 081 876 3367 Fax: 081 876 1674
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OCTOBER 12
Captive Insurance in Jersey
Recent developments make Jersey a very attractive location for establishing captive and other insurance companies. An important one day conference with speakers from Switzerland, England and Jersey covering regulatory, legal, tax issues and reinsurance.
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OCTOBER 12
MARKETING - MORE IMPORTANT THAN EVER?!
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LONDON

OCTOBER 12-15
TOTAL QUALITY MANAGEMENT
The Right Way to Manage
William E Conway
Bill Conway, the first Western CEO to implement the Deming philosophy in the West, will present his Right Way To Manage Seminar. People of all levels can learn from his knowledge and turn philosophy into practice. Mike Gallimore & Associates Ltd Tel: (0621) 858058 Fax: (0621) 850972
BIRMINGHAM

OCTOBER 14
CORPORATE ACTIONS
A detailed review of Corporate Actions including Rights, Scrips, conversions, interest and dividend payments, etc. Essential for all those working with securities and investments. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
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OCTOBER 14-15
Responses to Rio: The Business Impact
A 2 day symposium hosted by Imperial College's Global Environmental Research Centre, to provide authoritative information form eminent world experts on the Rio Summit, with crucial discussions on Agenda 21. For enquiries: Pamela Manser, Tel: 071 225 8666/7, Fax: 071 225 8668
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LOCAL AUTHORITY PENSION SCHEME REVIEW
Course detailing the specific requirements and investment aspects relevant to Local Authority Pension Schemes. Essential for council finance staff, council members and investment managers. Contact Investment Education plc.
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ADVANCED TRADE FINANCE
A comprehensive course on the intricacies of Trade Finance including Revolving Credits, Back to Back Credits, Transferable Credits, Red and Green Clauses, Bonds, Forfaiting, Factoring, Guarantees etc. Contact Investment Education plc.
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OCTOBER 15
Oil & Gas Russia PSR
Conference discussing impact of new Russian Petroleum Law on foreign companies; present & future exploration programmes; co-operation between foreign companies and enterprises in the post-soviet republics. Contact: The Conference Secretary, tel: (081) 547 2411 fax: 081-547 2157
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GLOBAL CUSTODY
A practical overview of the many operations involved in Global Custody. Essential for all those working with securities and investments. Contact Investment Education plc.
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LONDON

OCTOBER 16
Public and Private Sector Pay
Public Finance Foundation conference in association with the Confederation of British Industry. Speakers: Robbie Gilbert, Director of Employment Affairs, CBI and Chris Trinder, Research Director, Public Finance Foundation. Enquiries to Gail Main on -
Tel: 071 895 8823 Ext 255 /
Fax: 071 895 8825
LONDON

OCTOBER 19
OUTSOURCING I.T. A CRITICAL GUIDE
Explores the key issues associated with outsourcing. Leading organisations show how they have used outsourcing to increase the effectiveness of their I.T. operations, and major suppliers answer questions about how to avoid some of the most common problems. Contact: Business Intelligence Tel: 081-544 1830 Fax: 081-544 9020
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OCTOBER 19-23
African Business Show '92
A five day Conference and Exhibition focusing on starting or developing a better business link in, with and from Africa. Conference Speakers, Exhibitors and Delegates will be from governments international organisations, commerce and industry. Enquiries: - Imagemakers International Quaquaversal plc Tel:- 071-739-8410 Fax:-071-739-8683
LONDON

OCTOBER 20
New Ways to Manage - Exploiting the Power of Information
Warwick Business School. Speakers are senior executives from National Westminster Bank, Grand Metropolitan, Toshiba and the London School of Economics. Sponsored by Comshare, Warwick Business School and Nolan Norton & Co. Enquiries: The Event Organisation Co. Tel: 071 228 8034 Fax: 071 924 1790
COVENTRY

OCTOBER 20-22
PROCESSING AND PACKAGING MACHINERY ASSOCIATION:
PPMA Show, an Exhibition dedicated entirely to machinery for those who process and package food, pharmaceuticals, cosmetics, chemicals, beverages, DIY goods etc. Over 400 major machinery manufacturers exhibiting. Tickets from Bill Lake
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OCTOBER 21-22
Marketization of the CIS
The Banking and Finance Sector
Top Ministers and Bankers from East and West discuss the development of new financial and banking structures in the five key republics of the former Soviet Union. Contact: The Adam Smith Institute, Amanda Armstrong, Tel: 071 490 3774 or Fax: 071 490 2296
LONDON

OCTOBER 26 & 27
Valuing Companies and Securities - A Practical Guide
It is well known that valuation is an art and not a science. Come and find out the rules of thumb for valuing in a recession, valuing in undeveloped markets, valuing for privatisation, valuing intangible assets and many more. Contact Acquisitions Monthly Tel: 071 823 8740
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The Conference will discuss all the major issues in HR management today. A distinguished line-up of speakers includes Rt Hon Gillian Shephard, Employment Secretary and Rosabeth Moss Kanter, the much acclaimed management guru from Harvard. Contact: Gillian Tofield.
Tel: 081 946 9100 Fax: 081 947 2570
LONDON

OCTOBER 29
Pensions after Maxwell
A conference examining the options for reforming pensions legislation. Speakers include Social Security Minister Anne Widdecombe, regulators and pensions experts.
Contact: Iain Dale, The Waterfront Partnership Tel: 071 730 0430
Fax: 071 730 0460
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NOVEMBER 2
I.T. AND BUSINESS RE-ENGINEERING
Provides a unique opportunity to find out how the marriage of business process redesign and the creative use of information technology is enabling companies to complete more effectively in today's testing markets.
Contact: Business Intelligence
Tel: 081-544 1830 Fax: 081-544 9020
LONDON

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Developments in Competition Policy
A Conference examining legal and political developments in UK and European Competition Policy. Speakers include Corporate Affairs Minister Neil Hamilton.
Contact: Iain Dale, The Waterfront Partnership
Tel: 071 730 0430 Fax: 071-730 0460
LONDON

NOVEMBER 8-10
CBI NATIONAL CONFERENCE
Topics include UK Economy, Manufacturing Competitiveness, Planning System, Corporate Accountability. Speakers include Michael Heseltine, Sir Adrian Cadbury, Sir Leon Brittain, Gillian Shephard. Conference open to CBI members and non-members.
Contact: Elaine Walder, CBI Special Events 071 379 7400
HARROGATE

NOVEMBER 9-10
COMPLIANCE OFFICER'S GUIDE TO EPM
A comprehensive review of the practicalities of Efficient Portfolio Management for Compliance Officers. Includes essential product knowledge, permitted strategies, stock lending, legal and accounting aspects, etc. Contact Investment Education plc.
Tel: 061-833 9656 Fax: 061-834 8050
LONDON

NOVEMBER 23 & 24
How to Buy and Sell Unquoted Companies
Are you tired of employing others to help you buy and sell? This unique "DIY" course addresses the practical realities of buying and selling a company and how to minimise the risks involved. Contact Acquisitions Monthly Tel: 071 823 8740 Fax: 071 581 4331
LONDON

DECEMBER 7-8
WORLD ENERGY DEMAND: IS GROWTH INEVITABLE?
Convened by The Royal Institute of International Affairs, The British Institute of Energy Economics and The International Association for Energy Economics. To be held at Chatham House, London. Enquiries RIIA Conferences. Tel: 071 957 5700; Fax: 071 957 5710
LONDON

JANUARY 20 1993
Privatising British Railfreight & Open Access
A conference examining the Government's plans for privatising the railfreight activities of BR and implications of Open Access. Speakers include Rt Hon John MacGregor MP, Secretary of State for Transport.
Contact: Iain Dale, the Waterfront Partnership Tel: 071 730 0430
Fax 071 730 0460
LONDON

INTERNATIONAL

SEPTEMBER 14 - 16
Eledis '92
Conference & Exhibition on electronic data interchange for open systems in business and administration. From EDI to Multimedia through Image Interchange and Integrators (CALS, EPHOS,OTI,...) By core team who launched the EDI concept in Europe. Information : Xcomm International SA. Tel.: +32.10.411172 - Fax: +32.10.411742
BELGIUM

SEPTEMBER 21-22
ISSC-Seminar: Armaments Export Controls in Europe and the United States
International Seminars & Symposia Centre Tel: (+49) 228-6483-126 Telefax: (+49) 228-6483-200
BRUSSELS

SEPTEMBER 28-29
THE EFFECT OF EC LAW AND POLICY OF EFTA COMPANIES
This seminar focuses on key issues of EC Law and Policy which will have immediate impact on how EFTA companies conduct their business.
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BRUSSELS

OCTOBER 8-9
Competitive Intelligence
Strategics Objectives. Organisation. Techniques. Tools. Analysis. Seminar presented by Kirk Tyson, author of "Competitor Intelligence Manual & Guide." For managers and analysts with business development, planning, and research responsibilities. Also in Berlin 5-6 October, and in Bratislava 8-9 December. Contact IIB SA, Geneva. Tel: (41) 22 788 2751. Fax: (41) 22 788 2726
BRUSSELS

OCTOBER 12-13
EC MERGER CONTROL SYMPOSIUM
Speakers include Senior Officials from the Merger Task Force, The Federal Cartel Office and Monopolies and Mergers Commission. Keynote address: The Rt. Hon Sir Leon Brittan Q.C.
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BRUSSELS

OCTOBER 13-14
Trade & Investment in the Black Sea States, Turkey & Central Asia
two day conference & Business Forum exploring Russo/Central Asian business opportunities business forum meetings with high level delegations. Details: Interforum Services, Tel: 071 386 9322 Fax: 071 381 8914
ISTANBUL

OCTOBER 14
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CHICAGO

OCTOBER 15-16
EUROPEAN OIL & GAS EDI GROUP'S ANNUAL CONFERENCE
Inefficient paper-based trading is being replaced by Electronic Data Interchange. Specifically designed for the oil and gas industry, this is a unique opportunity for discussion of what is set to become the standard business practice of the future. Further details: Tessa Berry Tel: +44 296 89911, Fax: +44 296 641726
LISBON, PORTUGAL

OCTOBER 15-16
First Indian International Aviation Congress - Changing Scenario
Aviation regulatory liberalisation, future financing trends, new market strategies, mergers and alliances and manufacturing for the 21st century will all be discussed. Contact: FBMA Limited, Hong Kong Tel: (852) 891-1911 Fax: (852) 572-2093
BOMBAY

OCTOBER 26
LAW AND REGULATORY REVIEW OF LUXEMBOURG INVESTMENT FUNDS
A detailed and practical course covering the legislation, regulation, role of various parties and developments on the establishment and administration of Luxembourg investment funds. Also provided in French. Contact Investment Education plc. Tel: (+44 61) 833 9656 Fax: (+44 61) 834 8050
LUXEMBOURG

OCTOBER 29-30
Conference on Securities Clearing and Settlement in India
Topics to be discussed will reflect the latest developments in custody and clearing as it relates to the growing Indian market. Contact: FBMA Limited, Hong Kong Tel: (852) 891-2911
Fax: (852) 572-2093
BOMBAY

NOVEMBER 9-11
EC Funding Opportunities
Visit to Brussels, DG I - External Relations
Briefings by EC officials on the indicative programmes, aid disbursement, procedures for registration, tendering, monitoring and payment of EC funds for Eastern Europe (PHARE), former USSR (TACIS); Latin America, Asia and Mediterranean. Contact: Ms Maing, LCCI, 071 248 4444
BRUSSELS

NOVEMBER 9-14
TRADE MISSION TO ROMANIA
Following last year's successful Mission to Romania, the London Chamber of Commerce and the CBI are organising a similar programme of meetings and individual company contacts for 1992. Applications are invited from all sectors. Contact: LCCI East Europe Division, Tel: 071 248 4444 extn 2063
ROMANIA

NOVEMBER 11 & 15
ExpoShipping Istanbul '92 - International Shipping Exhibition and Conference
Organized in cooperation with Lloyd's Ship Manager Magazine this five day exhibition and conference will bring together the representatives of the Turkish and International Shipping Community. Please contact Ms Serra Talasli for further information: Tel: (901) 274 23 85 86/87 Fax: (901) 273 27 24
ISTANBUL

NOVEMBER 12-13
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GENEVA

NOVEMBER 22-27
TRADE MISSION TO SLOVENIA
The recently formed British Slovenia Trade Committee in cooperation with the Chamber of Economy of Slovenia and the British Embassy is recruiting a Trade Mission visiting 40 Ljubljana and possibly another centre. All sectors welcome. Contact: LCCI East Europe Division, Tel: 071 248 4444 extn 2063.
SLOVENIA

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ARTS

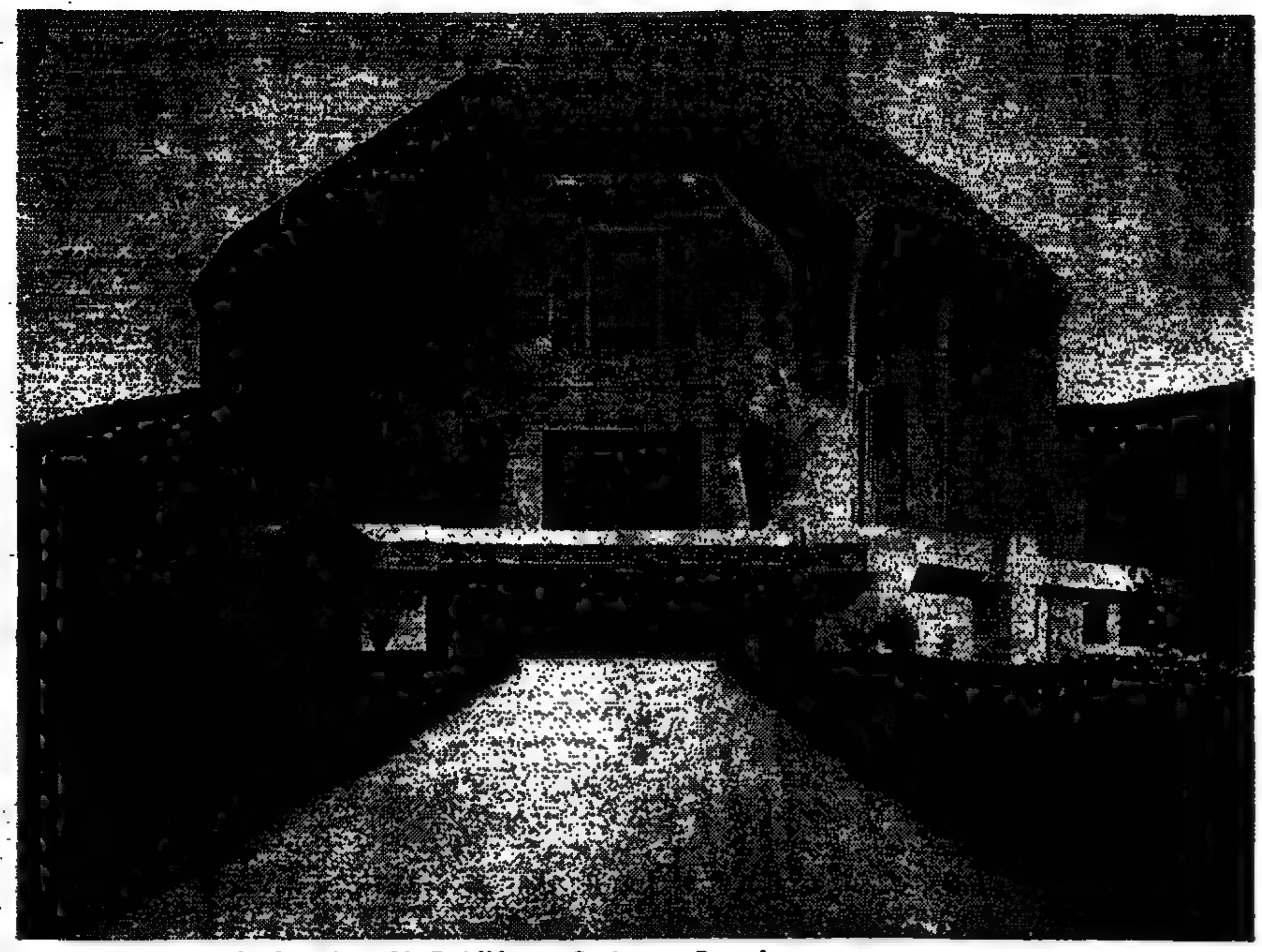
Architecture/**Colin Amery**

Monuments to genius and history

THE BEST kind of architecture is hard to compare with anything else. However, what good buildings have in common is that they clearly express a moment of history. From the Pantheon in Rome to the Guggenheim Museum in New York, architects have produced landmark buildings that measure history and yet are independently distinguished. Publishers are now understanding that there is a good niche for books that concentrate on individual masterpieces rather than books that generalise about a period.

Architectural history is marked by individuals of genius who produce occasional buildings of genius. A German publisher, Ernst und Sohn Verlag für Architektur und technische Wissenschaften, has seen the point of this sort of publishing and for around DM30 (£10.70) you can find elegant enlightenment about a series of good buildings. I was very struck by the volume on *Rudolf Steiner, Goetheanum, Dornach* photographed by Thomas Dix and written by the Cologne architectural historian Wolfgang Pehnt.

The Goetheanum is undoubtedly one of the icons of the Expressionist movement as well as being the key work of the great anthroposophist Rudolph Steiner. This book shows the building looking like a mountain lit from inside. In different lights the Goetheanum on its hillside near Basel becomes completely organic – strange, beautiful and always suggestive of some other worldly place.



The Goetheanum, near Basel, as pictured in *Rudolf Steiner, Goetheanum, Dornach*

On a much more homely level is the volume of the Ernst and Sohn series dedicated to the houses at Fredensborg in Denmark by Jorn Utzon, the architect of the Sydney Opera House. This is a book that makes the caring Sixties, when these houses were built in quiet courtyards with a community centre, look like ancient history. How we could learn today from these modest but sensitive houses! What a sense of peace and order and Scandinavian calm.

The other most beautiful thing that the sensitive photographs of Jens Frederiksen reveal is the acute awareness of the landscape. There is none of that isolated "landscaping" – *more a sense of perfect harmony* with the land and a strong sense of the scale of the walls being carefully considered with the scale of the trees.

The Ernst and Sohn series is known as the Opus series; it is well produced and the volumes are written in German and English. It will range widely, from a volume on Fatehpur Sikri to one on Zürich railway station by the Spanish architect Santiago Calatrava. They are available at good art bookshops

A book of an apparently more coffee table appearance is *Great Irish Houses and Castles* by Jaqueline O'Brien and Desmond Guinness, (Weidenfeld and Nicolson, £30). But do not be put off by the gloss and glamour of this book. Although it deserves the old accolade of sumptuous it is more than that. Mr Guinness knows these houses perhaps better than anyone in Ireland and the photographer, who has been whiz*zing over the houses in heli*copters and taking her lights into the great rooms, is famous for her photographs of horses. But she is not daunted by the difficulties of architectural photography. The results are very beautiful.

Having stayed in some of these houses, I was a bit surprised by the pristine order that they all appear to have acquired for the camera . . . But Irish houses, especially the great Georgian ones *such as Russborough, Florence* Court and Castletown, demonstrate that the classical house is habitable and elegant and comfortable. Mr Guinness, with his first wife, founded the Irish Georgian Society – one of the most entertaining and effective conservation bodies in the world. He wears his knowledge and enthusiasm lightly; his book makes you want to be in Ireland.

The world of the modern architect in Britain is now the subject of considerable scholarly research and publishing. RIBA Publications have just published a monumental volume about one of the heroes of modernism in this country. *Berthold Lubetkin Architecture and the Tradition of Progress* by John Allan (£60) is an amazingly thorough book which is interesting as social history as well as architectural history.

Lubetkin was born in Russia in 1901, fleeing first to Paris and then to London in 1931. He is famous for the Penguin Pool at London Zoo and for the work of his firm Tecton – which includes the Highpoint flats in Highgate, London, as well as much public housing and health building for the Borough of Finsbury. He seemed to be perfectly fitted to design the mining town of Peterlee, County Durham, for which he was the master planner, in the late 1950s. Its social programme fitted his beliefs – "that architecture can be a committed driving force on the side of enlightenment."

But he failed and had to resign, a disillusioned man who abandoned architecture and took to farming. His Russian emotionalism won the day and he was sadly embittered until the end of his life in 1990. Mr Allan's tribute is a daunting but effective biography of the man and his period, essential reading for anyone interested in what went right and wrong architecturally and socially in 20th century Britain.

Edinburgh International Festival

Earth-mother of Eurotrash

ONCE MORE into the Vale of Tears, dear readers. Thanks in part to the European Arts Festival, Pina Bausch and her Tanzteheater Wuppertal have returned to Britain for the first time in 10 years – at the King's Theatre. *Cafè Muller*, though by no means the best of Bausch is the current offering, both popular and *echt*.

Cafè Muller is set in an empty cafe. Wooden chairs and tables litter a large box set. Early on, two important scenes occur. A woman, eyes closed, sleepwalks barefoot in her nightie, her hair flowing, and an earnest young man, in spectacles, keeps shifting furniture, to save her from blundering into it. She seems driven by deep personal need – but, though he keeps guarding her, her need never includes him. Instead, she finds another unseeing sleepwalker, and it is this man who is plainly her destiny. The scene tinges Romantic somnambulism with violently neurotic urgency.

As soon as she and this new man blindly embrace, the next episode begins. A third, older man enters and rearranges their limbs. He is, evidently, an artist. No sooner does he walk away than the woman tumbles from the position into which he has put her. And no matter how often he arranges her, she tumbles every time. A funny scene, this at once introduces us to Bausch's talent for irony. It's absurd that a man should model these two sleep-lovers as if they were clay (but isn't that what choreographers do?). It's absurd they let themselves be models. It's absurd the modelling doesn't last.

The contrast between these two episodes is a sign of Bausch's theatrical mastery. But the fact is that these scenes, with the few meanings (however strong) they offer, occupy some 20 minutes. And the rest of *Cafè Muller* is a series of obvious repetitions and variations on these two situations. The two sleepwalkers are sado-masochistic. They throw each other against walls, they grieve, they are never happy – but they seek only each other. Other people – voyeurs and/or manipulators and/or helpers – try to draw their attention, but these lovers keep eluding anyone else who enters their spheres.

The six participants in *Cafè Muller* are excellent performers, unflinchingly committed. But, even though this piece asks them to do little real dancing, it still shows that they are simply terrible dancers – poorly co-ordinated, effortful (big lumpy calf muscles are a Bausch trademark), imprecise. But then, if Bausch had better dancers, 'she wouldn't know how to use them. Like so many European theatre artists, she has made a house style out of strain, hysteria and technical inadequacy.

As a theatre artist, Bausch is important and can be haunting. In dance (for want of a better word), she has had a fell influence far and wide. She herself performs the most isolated and lonely role in *Cafè Muller*. It is odd to watch this bleak, unhappy, middle-aged waif and to realise that this is the earth-mother of Eurotrash.

Alastair Macauley

London Promenade Concerts

Passion and precision

ON THURSDAY the second of the Royal *Concertgebouw's* Albert Hall Prom appearances brought the rarity of the concerto for oboeist, flautist and orchestra, *Grande Aulodia* (1970), by the Italian composer/conductor Bruno Maderna (1920-73). Earlier came a work with some stylistic kinship to Maderna's, the beautifully wrought, romantic early orchestral *Passacaglia* by Webern and, later, a work with none, the fifth symphony of Tchaikovsky.

The conductor was the orchestra's chief, Riccardo Chailly, who shaped the Webern piece with passionate precision, drawing it beautifully to a climax on which the high trumpets set a seal of excellent musicianship, just as the other brass players had earlier contributed memorable muted snarls and rasps. The work's gradient, from the barely audible opening *pizzicati* to the sonorous massifs towards the end, was defined with an ease of which only the best of orchestras is capable.

The concerto's soloists, Paul Verhey and Maurice Bourgue, must each play four instruments, Verhey the flute, piccolo, flute in E flat and alto flute; Bourgue the oboe, oboe d'amore, cor anglais and musette, akin a bagless bagpipe.

The wealth of solo sonorities is given scope by the relaxed formal structure – one critic justly termed the work the "cadenza concerto" – and was splendidly produced by these two virtuosi, completely at home with Maderna's often pointillistic idiom: even the musette was remarkably eloquent. The large orchestra, in a special arrangement on the platform, periodically chips in a kind of buoyant textural refrain reflecting one or other instrumental sub-group – jagged dance-like carolling for massed strings, brass volleys, tuned percussion expostulations, and so on. But the work ends unexpectedly on a sustained passage of almost Ivesian mystery and stillness.

Chailly negotiated the interplay of solo and orchestral sections with care, and the work came over as gratefully suave if not deeply substantial. His reading of the symphony was deliberated and restrained. The music's pessimism was favoured over its struggle for life. But for all the finesse with which this interpretation was advanced, one couldn't but regret the deficiency of musical red corpuscles.

Paul Driver

Theatre

Don't be put out for Jack's Out

IN Danny Miller's first play, an "old-fashioned thriller" set in the Brighton underworld (under the Pier, perhaps), Jack is out rather sooner than people had been hoping. The cast-list betrays the fact that we're not to meet him: like "George and Margaret", the long-expected guests in the old farce, he reaches the threshold just as the lights go down for the last time. By then, the four characters still alive and present have excellent reasons for not wanting to meet him either.

It *is* an old-fashioned thriller, if "old-fashioned" takes in not only *film noir*, but the specialised vein of criminal diction that goes back to Runyon and Orton, with a late flowering in "Arfur" Daley – archly elaborate, stuffed with sinister euphemisms. When Kieron Forsyth's shifty Jules declares *that in school he was no good* at "the words", he must be lying: like everybody else, he is hell bent to put a spin and a wink on every single phrase.

James Clyde's pretty-boy Luke has rashly taken up with Jack's girlfriend Barbara (Georgiana Dacombe) during Jack's enforced absence. They supply the *film noir* element, even a bit of Greenery; and there is a practised performance by Richard Tate as Chunky, the shameless old fence. John Challis's looming Frank supplies the real menace, and for all the script's verbal high-jinks he delivers the only real laughs too.

There is a strong whiff of television about all this, and one can't help reflecting that TV could have got it into one tidy hour. *Jack's Out* is longer than that, though the tightening screw of the plot is just about enough to bring you back after the interval to see what happens. I shouldn't recommend a long crosstown trip to watch it, but if you live nearby, Miller's deft script may offer some wry pleasure. Ken McClymont directs; Graham *Johnston's inelegant set serves* its purpose.

David Murray

Presented by Barmont Productions at The Bush, London W12; until 26 September

Music theatre

Revival brings Yan Tan Tethera into sharper perspective

IT IS 10 years since Opera Factory burst upon London's staid sensibilities with David Freeman's startling production of Birtwistle's *Punch and Judy*. In the last decade, the company has established itself as a vital third force in the capital's operatic life, clinging on without ever receiving the level of financial support it deserves, yet scoring a good many more invigorating hits than misses in its catholic range of stagings. One of those successes from 1986 is currently being revived in the Queen Elizabeth Hall – *Yan Tan Tethera*, Birtwistle's "mechanical pastoral" to a text by Tony Harrison.

It is a slender tale. A northern shepherd, Alan, comes south to settle among the sarsen stones of the Wiltshire downs with his wife, Hannah, and white-faced sheep. His success there attracts the envy of the local shepherd, Caleb Raven, whose black-faced flock fails to thrive; Caleb enlists the support of the Bad Un to steal away Alan and his newborn twin boys. In the end, of course, northern intuition and faith triumph over southern evil and avarice: Hannah's reliance on the old magic and the potency of traditional counting ("yan, tan, tethera, methera, pimp") restores Alan and her children to her; Caleb is trapped by his own greed, and the rest live happily ever after.

At the premiere six years ago it seemed a rather undramatic, unfocused piece, especially when set against the theatrical magnificence of Birtwistle's *Mask of Orpheus*, which had finally been staged at the Coliseum only two months earlier. But the revival puts everything into a much sharper perspective; *Yan Tan Tethera* can be now appreciated strictly on its own terms and the Opera Factory production seems altogether more tightly and confidently worked, with the orchestral contribution made far more telling.

The cast is almost entirely new; only Tom McDonnell, as the Ram leading the wonderfully observed chorus of sheep, has survived. The portrayals this time are, in general, less severe and their fluid style adds yet another layer to the complex dramatic web. Birtwistle's hieratic musical treatment, full of overlapping cycles and a likewise magical belief in the power of counting, Harrison's emphatically rhymed text and the strict ritualised scenario combine to create a subtle clockwork of its own. There may be a viable way of presenting *Yan Tan Tethera* that follows the prescriptions of the libretto more closely (in what was originally conceived as an opera for television), but Freeman's carefully detailed naturalism gives it positive life and energy.

As it is, Geoffrey Dolton's Alan, full of wonder and naive hope, and Marie Angel's passionate, unflinching Hannah bring the central characters alive in a way that the piece originally seemed to preclude. *Dolton delivers his counting* rhymes with vivid certainty, while Angel's luscious tone and compelling stage movement make every phrase into an adventure in itself.

Patrick Donnelly does as much as he can to flesh out Caleb's character; Harry Nicolls flits around effectively as the pipe-playing Bad Un. The chorus, steeped in sheep body-language, is a constant fascination and, an occasional ill-judged Larry-the-Lamb phrase apart, sings with great intensity.

The musical success of the revival stems from the conducting of Mark Wigglesworth and the playing of the Premiere Ensemble, who invest the score with intense lyrical detail.

The music is typical of Birtwistle's writing in the early 1980s: beautifully wrought, absolutely free of unnecessary rhetoric and conjuring a succession of striking images – haunting wind figures, webs of unfurling string lines, sudden stark percussive attacks. Here they are all fitted into a perfect dramatic context; the scale and *ambition of the piece are* exactly matched.

Andrew Clements

Queen Elizabeth Hall; further performances September 7, 8, 11 and 12.

INTERNATIONAL ARTS GUIDE

■ ATHENS

ATHENS FESTIVAL

Odeon of Herodes Atticus 20.30 Yannis Marcopoulos in concert with the Palintonos Armonia Orchestra. *Sat and Sun: Vladimir* Fedosseyev conducts Moscow Radio Symphony Orchestra. The festival runs till Oct 5 (322 1459)

■ BERLIN

MUSIC

Staatsoper unter den Linden 20.00 Daniel Barenboim conducts the Berlin Staatskapelle in works by Karel Husa, Dvořák and Beethoven (soloist Dietrich Fischer-Dieskau), repeated tomorrow and Wed, Thurs: Der Freischütz. Fri: Swan Lake. Sat: Paul Dessau's opera Die Verurteilung des Lukullus. Sun: Carl Orff double bill (2004 762). This week's Komische Oper performances begin on Wed with La bohème (2292 555)

Deutsche Oper 20.00 Meet the Composer, an evening with Aribert Reimann, whose new opera Das Schloss is the centrepiece of this year's Berlin Festival. Tomorrow: L'Italiana in Algeri. Wed and Sat: Fidelio. Thurs and Fri: Korean dance group. Sun: Das Schloss (3410 249)

Philharmonie 20.30 Cherubini Quartet plays works by Mendelssohn and Janacek. Wed and Thurs: Simon Rattle conducts the Berlin Philharmonic. Andras Schiff and friends play piano trios on Thurs in the Kammermusiksaal (2548 8232). Thurs, Fri, Sat in Schauspielhaus: David Shallon conducts the Berlin Symphony Orchestra (2090 2156)

THEATRE

Maxim Gorki Studiobühne has a new production of Rainer Werner Fassbinder's 1971 play *Die bitteren Tränen von Petra* von Kant, opening on Sat. The main theatre has plays by Edward Albee, Chekhov and Arthur Miller (2082 783). The Schaubühne production of Maxim Gorki's The Lower Depths can be seen at the Freie Volksbühne on Fri, Sat and Sun, and Bob Wilson's production of Marguerite *Duras' The Sickness of Death* can be seen at the Schaubühne on Wed, Fri and Sat (890023).

The Schiller Theater repertory includes a new production of Goethe's Clavigo, plus plays by Lessing and Molière (3126 505). At the Schlosspark Theater on Wed, Sabine Sinjen stars in Jean Cocteau's The Human Voice (7931 515). Hebbel Theater hosts a series of Czech theatre productions opening on Wed (254 89250). St Petersburg's Maly Theatre will present Gaudeamus, based on a novel by Sergey Kaledin, at the Freie Volksbühne from Sep 23 to 27 (254 89250). The Berliner Ensemble is closed till next Feb.

■ BRUSSELS

Palais des Beaux Arts 20.00 Gilbert Varga conducts the Jeune Philharmonie in works by Dukas, Ravel and Musorgsky. Fri: Pierre Bartholomée conducts the Liège Philharmonic Orchestra (507 8200)

■ COLOGNE

MUSIC

James Conlon conducts the Gürzenich Orchestra in Mahler's Third Symphony tonight and *tomorrow in the Philharmonie.* Fri and Sat: Hans Vonk conducts the Cologne Radio Symphony Orchestra and chorus in Beethoven's Missa Solemnis. Sun morning: Kurt Masur conducts the Leizig Gewandhaus Orchestra. Next Mon: Michael Tilson Thomas conducts the LSO. Next Tues: Christa Ludwig. Sep 24: *André Previn conducts the* Vienna Philharmonic (2801). The Opernhaus reopens on Sep 20 with a new production of Macbeth starring Elizabeth Connell and Franz Grundheber (221 8400)

THEATRE

The German premiere of Friedericke Roth's Erben und Sterben, premiered at this year's Vienna Festival, opens the new Schauspielhaus season on Sat. A new production of Samuel Beckett's play Krapp's Last Tape (1958) opens at the Kammerspiele on Sun. Edward Bond's 1965 play Saved opens at the Schlosserei on Sep 30 (221 8400)

■ FRANKFURT

FRANKFURT FESTIVAL

Alexander Lazarev conducts the Bolshoy Orchestra at the Alte Oper over the next three evenings. Tonight's programme is devoted to Rakhmaninov, tomorrow's features Mendelssohn's Violin Concerto and Wed is a concert performance of Prince Igor. Thurs and Fri: Dmitri Kitaenko conducts the Frankfurt Radio Symphony Orchestra in a programme including Grieg's Piano Concerto *(Leif Ove Andsnes) and* Shostakovich's Fifth Symphony. Sat: Claudio Abbado conducts the Vienna Philharmonic Orchestra and State Opera Chorus in Berlioz's Te Deum. Sun: Michael Gielen conducts Mahler's Das Lied von der Erde. Next Tues: Michael Tilson Thomas conducts the LSO. Sep 17, 18, 19: *Frank Zappa.*

The festival also includes a series of John Cage and Mauricio Kagel events (1340 400)

OPERA HOUSE

Merce Cunningham Dance Company gives four performances opening on Sep 17. The new opera and ballet season begins at the end of the month, with choreographies by William Forsythe (Sep 26) and Il barbiere di Siviglia (Sep 27). The first new production is Die Fledermaus on Oct 31 (236061)

ENGLISH THEATRE

Frankfurt's English Theatre Company at Kaiserstrasse 52 opens its new season on Sat with Peter Nichols' comedy Passion Play (2423 1620)

■ NEW YORK

OPERA/CONCERTS

City Opera gives the New York stage premiere of Busoni's Doktor Faust on Fri at State Theater. Christopher Keene conducts a production staged by Frank Corsaro and Ronald Chase. City Opera's repertory this week begins with Rigoletto on Wed and also includes Il barbiere di Siviglia and Turandot (870 5570).

The Metropolitan Opera *re-opens* on Sep 21 with Les Contes d'Hoffmann starring Placido Domingo (362 6000). The New York Philharmonic's season opens on Sep 16 with a gala concert conducted by Kurt Masur (875 5030)

■ VIENNA

OPERA

This week's programme at the Staatsoper begins with Tosca tonight at 19.30, starring Giovanna Casolla, Peter Dvorsky and Alain Fondary. Tomorrow: L'elisir d'amore with Leontina Vaduva. Wed: Ariadne auf Naxos. Thurs: La bohème. Fri and next Mon: Andrea Chenier with Katia *Ricciarelli, Luis Lima* and Renato Bruson. Sat: Die Zauberflöte. Sun: Lucia di Lammermoor with Edita Gruberova. The Volksoper has Die Zauberflöte tomorrow and a Zemlinsky double-bill on Thurs (51444 2960). Neue Oper Austria presents Mozart's La finta giardiniera and Ascania in Alba in repertory at the Schönbrunn Schlosstheater from tomorrow till Sun (824566)

CONCERTS

Tonight at 19.30 in the Musikverein, Hans Vonk conducts the Cologne Radio Symphony Orchestra and Chorus in *Beethoven's Missa Solemnis* (4000 8410). Tonight at 20.00 in the Minoritenkirche, the Nash Ensemble plays works by Britten, Berg and Beethoven. Thurs at Auersperg: Vasko Vassilev, accompanied by Pamela Nicholson, plays violin sonatas by Rossini, Beethoven and Paganini (877 5208)

THEATRE

Eugene O'Neill's 1943 play A Moon for the Misbegotten opens tonight at Vienna's English Theatre, Josefsgasse 12 (daily except Sun, 402 1260). A new musical entitled Elisabeth, about the wife of Emperor Franz Joseph, can be seen daily except Wed at the Theater an der Wien. *The music is by Sylvester Levay,* production by Harry Kupfer (599 7719). This week's repertory at the Burgtheater and Akademietheater includes Dürrenmatt's The Visit, Beckett's Waiting for Godot, Shakespeare's Macbeth and plays by Feydeau and Sean O'Casey (51444 2218)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN

2000-2030, 2200-2230 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel

0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV

2130-2200 (Tues) Media Europe – what's new in European media business

2130-2200 (Wed) FT Business Weekly – global business report with James Bellini

0830-0900 (Thurs) Media Europe

2130-2200 (Thurs) FT Eastern Europe Report

0830-0900 (Fri) FT Business Weekly

Sky News

0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN

0900-0930 World Business This Week - a joint FT/CNN production

1900-1930 World Business This Week

Super Channel

1930-2000 FT Eastern Europe Report

SUNDAY

CNN

1030-1100, 1800-1830 World Business This Week

Super Channel

1800-1830 FT Business Weekly

Sky News

1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
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Monday September 7 1992

A role for trade unions

BRITISH EMPLOYEES are getting a raw deal from their trade unions. They deserve efficient and relevant services in the workplace, but they also need an authoritative voice on work issues which transcend the individual contract of employment: subjects like safety at work, pensions, training, the trade-off between pay and jobs, hire and fire rules, and more. The union leaders gathered in Blackpool today for the start of the 124th Trades Union Congress are, with few exceptions, not providing it. TUC unions now represent only about one-third of the workforce but they are still easily the largest pressure group for employees. Judged by the standard of many other pressure groups, they have not delivered.

It is not all their own fault. Some are locked into declining industries, most are weakened by unemployment or radical changes in the public services. But they have compounded their current weakness by failing to concentrate their limited human and financial resources on the issues they are best in a position to understand and which most affect their members as employees. No longer the bogeymen of a strike-prone society, the union bosses have simply become irrelevant. Their hopes of salvation in the form of EC social policies have also been frustrated.

Some, though not all, of the shortcomings can be blamed on poor leadership. For example, the TUC still has several committees monitoring national political developments which take up far too much of the time of senior union leaders. The effect of opted-out schools on teachers is a legitimate concern of the teaching unions, but the TUC does not also need an education committee to produce position papers on the subject. After the Labour party's fourth election defeat, it is also more urgent than ever that the unions escape from the constraints required by the shadow cabinet and discover a distinctive voice that speaks for union members, rather than seeking to anticipate the nuances of Labour's policy review process. The idea of working more closely with the Confederation of British Industry is in tune with this broader approach.

When it come to the efficiency of basic services, there are signs that unions are moving in the right direction. For instance, MSF, the general technical union, recently said it would apply to join the British Standards Institution's corporate quality assurance scheme; others may follow.

It is not yet clear whether this healthy trend will be strengthened by the other big development in the union world – itself, oddly, *not* the subject of debate at this week's conference – the shift towards a smaller number of ever larger unions. These actual or proposed mergers may offer economies of scale, but they could also turn into distant conglomerates, with little of the functional expertise that members want and out of touch when it comes to gauging union members' true interest in important national debates. Even worse, the "super unions" could end up by distracting the unions with more internal politics as they try to weld very different organisations into one. British trade unionism cannot afford another big mistake.

Last act in Rome

THREE WEEKS ago, Mr Piero Barucci, Italy's treasury minister, declared that his country's 1993 budget would be "neither Shakespeare nor Verdi". In fact, the plot centred on Italy's chronic fiscal deficit seems now to be rapidly heading towards a final act rich in drama and desperation. The Bank of Italy on Friday failed to resuscitate the lira despite a 1.75 percentage point increase in interest rates. The weekend declarations at the Bath finance ministers' meeting may calm nerves on the foreign exchanges for the time being. But Italy will be fortunate if it limps through the fortnight before the French Maastricht referendum without a further intensification of the country's financial crisis.

Mr Giuliano Amato's government had hoped that last month's L30,000bn emergency package trimming this year's deficit would buy breathing space in which to tackle the still more exacting challenge of the 1993 budget. In its plans for next year, to be presented to parliament by the end of this month, the government is looking for total spending cuts and extra revenue amounting to roughly three times the 1992 deficit reduction. The government aims to realise most of the savings through structural reforms in the civil service and regional administration, as well as in the increasingly expensive health and pensions systems. All these changes will be painful and unpopular. But only by approving them can Italy's parliamentary deputies win the credibility the country needs to weather the current monetary turmoil.

Other options do not exist. A lira devaluation would be folly unless it were accompanied by action showing Italian voters and foreign investors that the country really has switched fiscal course. The renewed monetary squeeze, on its own, will prove self-defeating, since higher interest rates dampen economic activity and tax revenues and add drastically to debt service costs.

Mr Amato must use the sense of impending financial calamity to press his budget plans through parliament with the utmost urgency. The desire to remain aboard the journey to European integration gives Italy an additional incentive. More than that, Europe's drive for economic convergence is the only thing that gives Italy's reform efforts a semblance of credibility; the weakness of the lira is being exacerbated by uncertainty as to whether the Maastricht treaty will survive. The message from the financial markets is that this really is Italy's last chance. If they judge that Italy has become irrevocably cut adrift from the process of European convergence, then its fate, both political and economic, will be dire indeed.

Nukes and taxes

SUBSIDIES AND distortion are deeply rooted in energy markets – the legacy of attempts by successive governments to promote particular types of fuel. The nuclear levy is one of the most costly such distortions, and it was right of Prof Stephen Littlechild, the electricity regulator, to draw attention to it last week. At £1.3bn a year, it amounts to a large hidden tax on electricity consumers in England and Wales, and puts a questionable burden on industry.

But it is not so easy to argue that it should be abolished. Virtually all of it goes to Nuclear Electric, the state-owned company which operates the 12 nuclear power stations in England and Wales. The money will pay for the decommissioning of stations when they come to the end of their lives.

The essential question is whether decommissioning costs are a legacy of bygone policies and should therefore be borne by the government and so by all taxpayers or whether they should be treated as a direct production cost of electricity for which the present-day consumer should pay.

It is evident that the Treasury will not rush to replace a levy which few people even know about with a more open tax, so reform will be resisted in that quarter. Furthermore, there are already plans to phase the levy out by 1997, so there is a case for leaving existing arrangements undisturbed.

But there are other considerations, not least the imminent privatisation of British Coal. The ending of effective subsidies to the coal mining industry through artificial long-term coal contract prices will leave Nuclear Electric with very special advantages which are hard to justify. Aside from the levy, NE enjoys priority access to supplying the electricity grid because nuclear generators cannot be switched on and off as easily as other sources.

Far better to draw a line under old policies and reconstitute Nuclear Electric in such a way that it can operate as a free-standing commercial enterprise. This would entail making a distinction between the declining Magnox power stations which Nuclear Electric inherited and those which form part of its new commercial strategy. The cost of decommissioning the former would be borne by the exchequer, the latter out of NE's operating profits, which are growing. Proposals for new nuclear stations would be assessed economically on the basis of all their costs, including decommissioning.

Aside from creating a more level playing field in the energy market, this arrangement would also shape the right setting for a government review of the nuclear power industry in 1994. Scottish Nuclear, which owns Scotland's two nuclear power stations, does not benefit from the levy. The sooner Nuclear Electric can be viewed as a commercial rather than a subsidised concern, the more likely that sensible decisions about the longer-term prospects for nuclear power can be made.

One of the world's biggest air shows takes place against a background of uncertainty in the aerospace industry, says **Paul Betts**

Cloudy skies at Farnborough

Mr Jean Pierson, the chairman of Airbus, was offering a bottle of champagne for the first serious customer to walk into the European aircraft consortium's hospitality chalet at the Berlin air show in June. He is likely to double the offer at Farnborough today.

Airbus, like the rest of the industry, is scrambling for new orders at a time when the overlapping and growing difficulties of both the civil and defence sides of the business are accelerating a radical reshaping of large sections of the industry.

The last Farnborough air show two years ago was dominated by the impact of the sharp defence cuts on the military business that followed the collapse of the Berlin Wall and the ending of the cold war. This time, the focus of concern has shifted to civil aviation which has so far failed to recover from its worst recession in 40 years.

"Frankly, the financial health of civil aviation worries me more than the fall-off in the military market," said Mr Brian Rowe, head of the US General Electric company's aero-engine activities. For Mr Rowe, the military slowdown was not unexpected although it occurred much faster than anticipated. "The question is how do we continue to develop large commercial engines when our customers are losing multi-billions of dollars a year and it appears they are still a few years away from relief," he added.

Mr Maurice Foley, deputy chairman of GPA, the Irish leasing group which was forced to shelve its flotation this year because of the depressed state of the commercial aircraft market, said the industry's financial situation was a disaster.

"Since mid-1990, the world airline industry has lost at least $10bn, an amount roughly equivalent to its entire earnings in the previous six years. For any industry, such a setback would be a significant blow: for one which must finance over $30bn worth of new assets a year on average, it is a catastrophe," he said last week.

A big gap is emerging between the airline industry's financial resources and its needs. In turn, airlines' growing difficulties in financing new aircraft acquisitions is becoming one of the main challenges facing aircraft manufacturers. Unless new sources of financing are developed, the industry's more optimistic long-term growth forecasts are unlikely to be realised, warns Mr Adam Brown, the Airbus planning director.

The industry continues to believe that air traffic will grow by 5 per cent a year on average during the next 10 years and that the world aircraft fleet will need to expand accordingly.

Airbus last week predicted that during the next 20 years 90 per cent of the world's current inventory of about 7,800 jets will be replaced. Most will be retired. Airbus is now forecasting that world airlines will order more than 9,000 additional new aircraft during the next 20 years. This represents business worth about $850bn at today's prices.

But this bright future hinges on the industry overcoming its short-term difficulties. Although passenger traffic has picked up since the air travel slump caused by the combination of the Gulf war last year and economic recession, business has failed so far to recover sufficiently to match the overall rise in capacity which is still outstripping passenger demand.

Simply put, too many aircraft are flying with empty seats. After falling by 3 per cent last year – the first decline in air traffic since the introduction of the jet aircraft – passenger traffic has increased so far this year by 8 per cent compared with 1990, the year before the collapse provoked by the Gulf conflict. But according to the International Air Transport Association (Iata), overall capacity is 12 per cent higher than in 1990.

Airlines are engaged in what Mr Gunter Eser, Iata's director-general, calls a "kamikaze fare discounting war" to maintain market share in anticipation of an eventual traffic rebound and to position themselves in an increasingly deregulated international aviation market.

The Association of European Airlines (AEA), which groups together 24 European carriers, also noted last week that the current weakness in the market has coincided with a surge in capacity by US airlines. This, in turn, has created a renewed fares war to attract US traffic hit by the falling value of the US dollar. In Europe, even the Olympic Games and the world trade fair in Spain failed to regain the lost momentum in air travel, AEA added.

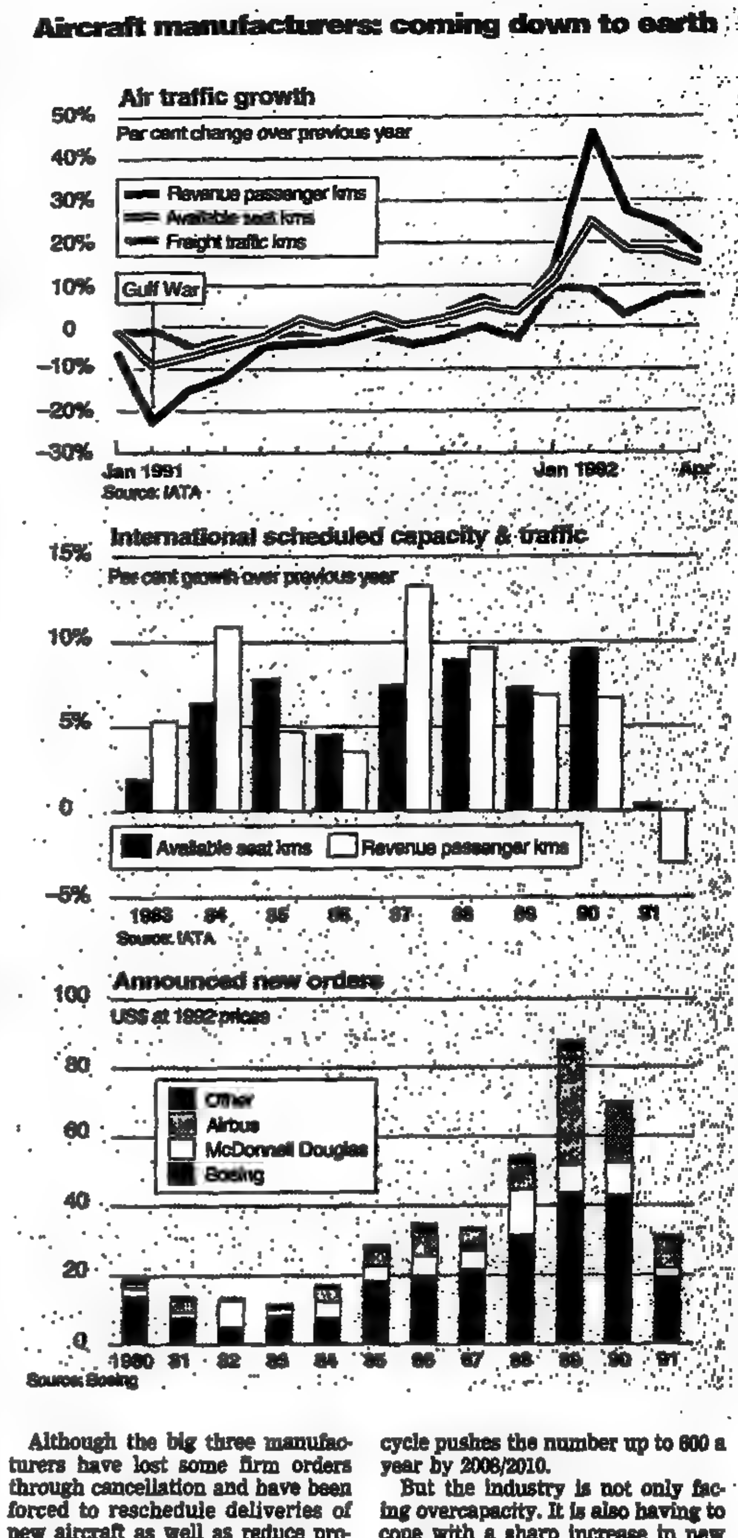
Excess capacity is also unsettling aircraft manufacturers. "Air travel may experience much stronger growth than we now project, but our best guess today is that there is no foreseeable shortfall to 2010 in commercial aircraft manufacturing capacity," said Mr Larry Clarkson, Boeing's vice-president of planning and international development.

"It seems clear that the growing problem of excess capacity will have a huge impact on our industry over the next five to 10 years and we will probably see a change in both the composition of the airframe manufacturers and their relationship with suppliers," he added.

The contraction in the defence industry is expected to continue spawning new ventures in commercial aerospace, putting even greater pressure on capacity. This is likely to take place not only among the big western manufacturing industries but also in Russia and other countries, especially those in the Asia-Pacific region with aerospace aspirations.

Russia is mounting an unprecedented marketing drive to sell military and commercial aircraft in the west at Farnborough this year. More than 400 Russian officials are attending the show. At least 20 Russian aircraft will be exhibited, including seven never shown in the west before.

During the last cyclical expansion, airlines and leasing companies ordered more than 1,000 aircraft a year between 1988 and 1990. This has created an order backlog equivalent to five years of future production for the big three airliner manufacturers – Boeing, Airbus and McDonnell Douglas. This compares with a historical average of just over two years for the industry.



Although the big three manufacturers have lost some firm orders through cancellation and have been forced to reschedule deliveries of new aircraft as well as reduce production on some programmes, they are still confident that their huge order backlog will ultimately be delivered over a longer than originally envisaged timescale.

Manufacturers still expect to deliver a record total of about 800 new aircraft this year. But Airbus now acknowledges that deliveries will decline to some 400 aircraft a year in 2004 before rising again when the next aircraft replacement cycle pushes the number up to 800 a year by 2008/2010.

But the industry is not only facing overcapacity. It is also having to cope with a sharp increase in new product development costs. "Driven at least in part by the increasing complexity of airworthiness regulations, the non-recurring costs necessary to conceive a new product and to bring it to the market have been growing far more rapidly than general cost inflation," says Mr Brown of Airbus.

This is expected to lead to a sharp reduction in commercial aircraft programme launches – a mirror of the trend in the military aircraft industry. In the US, the world's largest aerospace market, the number of combat aircraft programmes in production has already fallen from 11 in the 1970s to seven in the 1980s and probably to no more than one or possibly two in the 1990s.

On the commercial side, there have been a total of 19 important new product launches in the past 20 years. "I find it difficult to envisage more than a quarter of this number – that is, at a maximum four or five – of major product launches in the next 20 years," said Mr Brown. He also expects the focus in the industry to shift from new product development to improving existing aircraft programmes.

Excess capacity and increasing development costs have forced the pace of restructuring in the industry. The past few months have seen Deutsche Aerospace, the aerospace subsidiary of Germany's Daimler-Benz group, negotiate a partnership with Fokker of the Netherlands which is expected to lead to a significant realignment in the European regional aircraft industry. McDonnell Douglas has been striving to forge an alliance with aerospace manufacturers in the Far East to form a new international commercial aerospace partnership to match Boeing, which controls 55 per cent of the world market, and the European Airbus consortium which has built up a 26 per cent share of the market during the past 20 years.

The pressures of the market are also driving companies into broader cross-border alliances and forcing them to retrench around their core activities. General Dynamics, the biggest US defence contractor, took the lead when it decided to shed all its non-strategic defence activities, including those in the commercial sector, to refocus itself on its principal military businesses.

British Aerospace is in the throes of a similar process. It is expected to announce later this month a restructuring programme aimed at focusing the company on its core military and large civil airliner business. And Boeing, the world's dominant commercial aerospace company with a long "do-it-alone" tradition, is now openly talking of expanding international collaboration.

The industry both in the US and Europe believes that future market requirements for more technologically and environmentally efficient aircraft, including a new generation of 600-seater jumbos and supersonic jets, will require significant government support. This summer the European aerospace companies have already urged the European Community to fund a five-year £1.2bn programme to develop advanced new aircraft technologies. In turn, the US industry has called for more consistent political support for aerospace companies.

Ultimately, however, there is bound to be a significant shake-out both in the civil aviation and defence industries. Sir Colin Marshall, the deputy chairman of British Airways, believes the industry will eventually be dominated by "no more than 10-12 global airline combines, perhaps less".

On the manufacturing side, Mr Rowe of GE believes that "out of the ashes of 1991 and 1992, a more streamlined, cost-efficient industry has to emerge". Mr Pierson of Airbus gave a blunter prediction: "If you want to make a small fortune in aerospace these days, you better start with a big one."

The canny engineers of survival

A batch of good results in the engineering sector offers a ray of hope amid the gloom, writes **Andrew Baxter**

Good news is a rare and precious commodity for the bosses of UK engineering groups as they struggle to keep their companies at least one step ahead of the receiver.

Sterling's difficulties and the threat of higher interest rates are adding to a sense of gloom caused by the longest and deepest recession many in the industry can remember. Last month's pessimistic forecast from the Confederation of British Industry highlighted the weakness of the economy. Meanwhile, there could be further bad news this month, traditionally the busiest for UK company results.

But there has been a glimmer of hope in some recent figures from the engineering sector, and while they may not offer grounds for too much optimism, any good news from UK manufacturing is worth closer examination.

The first to lighten the gloom was BBA, the component maker for the automotive, aviation and industrial markets. Early last month it announced first-half pre-tax profits up 26 per cent to £33m. Soon afterwards, GKN, the automotive components, engineering and industrial services group, surprised the City with a 37 per cent rise in pre-tax profits to £65.1m.

A week later, Birmingham-based Glynwed International, a producer of consumer and building products, plastics, and tubes and fittings, revealed a 46 per cent rise in half-year profits to £15.4m. Then, at the end of last month, Weir Group, one of the world's largest pump and valve makers, notched up a 28 per cent profit advance to £18.5m.

The numbers are encouraging but should be viewed with some caution. The half-year statements of the engineering groups carry a clear message for other British manufacturers – cutting costs and raising productivity are essential to give any hope of raising profits in the current environment.

Indeed, there is little to suggest any improvement in market conditions in the coming months. "We do not expect the demand pattern we


Decision-takers in hostile trading environment: (from left) Lord Weir, Sir David Lees, Gareth Davies

are currently experiencing in our principal markets to change materially in the next few months," said Sir David Lees, GKN chairman.

At Weir, chairman Lord Weir also stressed the importance of low-cost manufacturing and cash generation in generally hostile trading conditions. "Although we are doing better, it is bloody difficult," he said.

Another important point is that, in an industry as diverse as engineering, there are always "niche" opportunities for companies to make money even when general conditions are tough. The real question is whether a company has the ability to exploit them, as Weir has illustrated by taking advantage of buoyant conditions in the Asian power equipment market. This is a good example of an infrastructural sector which operates under a much longer-term business cycle than many other parts of engineering.

There are also some special reasons for the rosy results. Glynwed, for example, cut group borrowings by about £12m in the first half of the year by selling three non-core businesses. Reduced interest charges thus contributed to the big rise in profits.

Even so, it would be churlish to disparage profit figures which are a timely reminder to pessimists that the UK engineering sector is not about to disappear. The results are also a lesson to some smaller engineering companies which have been slow to take difficult decisions on cutting costs, says Mr Tim Bennett of the Birmingham-based stockbroking firm Albert E Sharp.

After their experiences in the recession of 1980-81, the larger groups understood that they would need to move quickly to reduce production capacity in line with falling demand soon after the current recession began. GKN slashed its UK workforce from 64,800 to 40,600 between 1980 and 1982. While the cuts overall have been less severe in the current recession, none of the companies has shied away from cutting its workforce this time.

The four companies' strong first-half performances, relative to the rest of UK manufacturing, bear witness to their improved management over the past decade. Nowhere is this better illustrated than at Weir, where management shortcomings brought the company to the brink of collapse in 1981. The company was forced into a drastic restructuring. High interest rates, the level of sterling and the weaknesses of domestic demand were contributing factors, but the main problem was weak management.

Weir, says Mr Bennett, is "probably the best example of an engineering success story. They've done it through good management of existing businesses and selective acquisitions." Its low-cost manufacturing plant in Glasgow is competitive at current exchange rates, an important achievement, as its main competitors are German and Japanese. Meanwhile Weir has rejuvenated Hopkinsons, the UK's biggest producer of specialist valves and boiler fittings, which had been wracked by labour disputes before it was acquired in 1989.

Such achievements are due partly to the tough-mindedness of executives such as Sir David at GKN, Mr Ron Garrick, the Weir chief executive, and Mr Gareth Davies, Glynwed's chairman, who have not shirked painful restructuring decisions.

But the profit performances are due as much to a policy of internationalisation, intended to reduce dependence on a declining base of UK manufacturing customers. This is particularly apparent at the radically restructured GKN, where overall employment has plunged from 101,600 in 1980 to 31,400 last year. Sales in both years were almost identical at £1.92bn, but the overseas sales component, along with exports from the UK, jumped from 44 to 71 per cent. Even Glynwed, which still generates 70 per cent of its turnover in the UK, has had notable successes overseas, especially in its plastics business.

There have been other big engineering groups to unveil favourable results recently. Last week, Senior Engineering Group announced an increase of almost 15 per cent in first-half profits to £10m. And T&N, the motor components and engineering group, boosted pre-tax profits by 71 per cent to £34.7m owing to cost-cutting and successful investment in the US.

A few more good results are likely over the coming weeks. Unfortunately, however, there is no evidence to suggest that the majority of big UK engineering companies could improve their results by emulating GKN, BBA, Weir and Glynwed. Most of them are *already* doing the right things – reducing costs, modernising their management and production techniques and seeking new opportunities overseas – but none of this can guarantee maintained profits, let alone increases, if conditions are depressed worldwide.

The experience of the engineering sector has shown that UK manufacturers need to build their own bridges to profits. The sector will emerge weakened from the recession – whenever recovery occurs – but its standard-bearers will be those which can exploit every opportunity for growth in increasingly competitive world markets.

PERSONAL VIEW

Why German policy hurts at home as well as abroad

By Ronald McKinnon

Is German monetary policy too tight? The casual observer might answer with a resounding "yes" in view of the turmoil in the European Monetary System and the dollar's fall against the D-Mark.

It must be remembered, however, that the Bundesbank's mandate is to stabilise the level of German prices. Nonetheless, in terms of this narrowly domestic objective, is the Bundesbank's monetary policy still too restrictive?

Without doubt, high German short-term interest rates are putting great pressure on other EMS members. Countries with a tradition of higher inflation, such as Britain and Italy, have seen their currencies fall to the bottom of their EMS bands. The value of the dollar, meanwhile, is being driven well below its purchasing power parity with the EMS bloc. If the dollar falls further, to well below DM1.40, US long-term interest rates could jump. If international investors come to believe that the dollar exchange rate is again heading for a free fall, they will demand a much higher yield on dollar assets, and that would threaten US economic recovery.

The Bundesbank does not *directly* take into consideration such short-run international circumstances. Rather, its priority is to stabilise the D-Mark's future purchasing power. Moreover, containing German price inflation, the Bundesbank would argue, will *indirectly* benefit the rest of the world. German price stability represents the anchor necessary for the success of the EMS. In addition, maintaining Germany as a beacon of financial rectitude can benefit the world economy – for example, by putting pressure on the improvident US to be less inflationary.

The Bundesbank's focus on price stability in Germany is thus here to stay. Consequently, if the German monetary authorities are to ease their policies, they must be convinced that they are violating their own mandate. And that is precisely what I believe the Bundesbank is doing. Present German monetary policy is unnecessarily tight for stabilising domestic prices in the longer term. By implication, the German and world economies are experiencing unnecessary financial trauma.

First, consider Germany's rate of price inflation, running at 1 to 2 per cent measured by the producer price index, and at 3.5 to 4 per cent according to the consumer price index. While modest, these numbers are still too high if they continue indefinitely. To be consistent with a fixed exchange rate regime such as the EMS, all participating countries should aim for zero inflation in their producer price indices (ie, the price of tradeable goods). So the German authorities are right to be concerned.

In west Germany, however, inflationary pressure has been temporarily increased by the system of collective wage bargaining and inflexible labour markets. Wages in east Germany will continue to rise quickly until 1994 when, in many sectors, they will equal those in the west. Although this wage pressure could explain the modest increases in producer prices now apparent, it need not persist.

By implication, the German and world economies are experiencing unnecessary financial trauma

But wage pressure is not the only problem. Central bankers must divine inflationary pressure in the future by looking at current portents. Since the level of interest rates has proven ambiguous for this purpose, this leaves just two plausible yardsticks: the value of the D-Mark in the foreign exchange markets and growth in the German money supply.

At DM1.40 to the dollar, the D-Mark is strong. Purchasing power parity would be about DM1.90 to the dollar. As every tourist knows, the German price level is high relative to the dollar area – and much of world trade is still invoiced in dollar terms. International commodity arbitrage should, therefore, eventually generate downward pressure on the German producer price index.

German economists recall that the previous periods of significant D-Mark strength against the dollar – in 1973 and again in 1978 – were followed by substantial worldwide inflation. Yet the previous episodes were different. In the 1970s, inflationary pressure from the US was much higher than in Germany. In contrast, in 1992 inflationary pressure in the US is subdued and lower – both on the producer price (in the US, wholesale price) and consumer price measures.

The second monetary indicator available is money growth. The monetary aggregate central to German decision-making is M3 (equivalent to M2 in the US), which is growing at about 9 per cent a year. The Bundesbank believes this portends future inflation. But there is good reason to believe that German M3 is sending out a false signal.

In contrast to the US, Germany now faces an inverted yield curve in its bond markets: German short-term interest rates at about 9.75 per cent are considerably higher than long-term bond rates of 8.5 per cent or less. This unusual phenomenon means that German investors have incentives to reduce normal holdings of long-term bonds in favour of short-term bonds and interest-bearing bank deposits, and the last is the largest component of M3. Thus the temporary high growth in M3 in part reflects a shift in demand in German savers' portfolio preferences in favour of time and savings deposits. It need not reflect excess monetary creation.

But that is not the end of the story. In the US, the yield curve is sloping upward unusually sharply. Very short-term interest rates of about 3.5 per cent are much less than long interest rates of about 7.5 per cent on safe government bonds. Pensioners and other individuals seeking higher yields are shifting from short-term interest-bearing bank deposits (and bonds) into longer-term bonds and equities. Thus growth in US M2 over the past year has been about zero. But this portfolio shift (which shows up as a rise in the velocity of M2) hardly reflects a tight money policy in the US; US policy has, in fact, been very easy.

Because D-Mark assets have long been considered the principal alternative to holding dollars, we must also consider the two countries together.

International currency substitution tends to magnify the bogus signals thrown out by the monetary indicators in each country. American investors see what they think is a pitifully low yield on short-term dollar bank deposits. They switch into short-term D-Mark deposits to capture yields that are more than two and a half times as great – perhaps with the help of international money-market funds. And German investors reduce their "normal" holdings of short-term dollar deposits in favour of higher-yield D-Mark equivalents.

International currency substitution, therefore, further magnifies monetary growth in Germany – while reducing it in the US. This is perfectly acceptable, provided neither the US Federal Reserve nor the Bundesbank puts any weight on M2/M3 growth as a monetary indicator of future inflation. Unfortunately, the Bundesbank thinks that its money supply is growing too fast, which explains its unnecessarily tight monetary stance. Very high short-term German interest rates are not only threatening the framework of intra-European and worldwide monetary co-operation. They are also undesirable from a domestic German perspective.

The author is William Eberle Professor of International Economics at Stanford University.

LETTERS TO THE EDITOR

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Pitfalls in pursuit of quality standard

From Mr L M Teasdale.

Sir, Charles Batchelor's article, "Badge of Quality" (September 1), reflects some of the doubts being felt within smaller companies of establishing a quality system conforming to BS5750. However, the article dwelt only on doubts arising from costs and complexities of getting approval; not on the growing doubts over the benefits which approval can bring.

This association was among the first to agree a sectorial scheme for approval of quality systems. Some of the expected benefits such as reduced incidence of errors, improved understanding, productivity, etc, have emerged, but did not require an external assessment to bring them about. However, instead of an expected reduction in the number of assessments, with customers accepting the result of the independent external assessor, many customers still insist on carrying out their own assessments. This involves time and cost to the manufacturer.

The emergence of EC approval arrangements for products under various directives can involve regular reviews of the manufacturing process, as do other independently established bodies implementing their own product approval requirements. It does not matter if these are treated as requirements additional to BS5750. To a manufacturer, each is a different quality system, and still involves a separate assessment.

A major influence driving the adoption of the BS5750 arrangements was to improve the customer's certainty that the desired quality would be achieved and so save the cost and interruption of multiple inspections. There is a real danger that multiple inspections are simply being replaced by multiple assessments with the heavy costs of implementing and maintaining a BS5750 system on top.

L M Teasdale,
technical director,
British Pump Manufacturers' Association,
London SW1V 1EJ

From Mr Peter Edwards.

Sir, A large proportion of the work of this consultancy is with clients who have achieved BS5750 accreditation – and little else besides.

Unless the opportunity is taken to implement a culture change at the same time, then the exercise is likely to produce only a manual.

It is not just a "management exercise", and few companies take the trouble actively to involve the sharp end who actually make the quality. Finance and administration departments are only marginally involved.

Measurement is also lacking – how do you know you are getting better unless you know where you are and where you are going? Any company rejecting suppliers only because they do not have accreditation needs to reassess their purchasing strategy.

Peter Edwards,
Peter Edwards Consultancy,
55 Beverley Road,
Royal Leamington Spa

From Mr Magnus Robertson.

Sir, Charles Batchelor points out the need to "devise a means to allow 96 per cent of UK businesses which employ fewer than 20 people to share the benefits of higher quality standards".

Obviously not all companies have the ability or motivation to take the DIY route. Alternatively, they may be unwilling to pay the full cost of hiring a consultant. There is, however, another way that is beginning to gain recognition among smaller companies – the group workshop approach.

A number of group workshops is currently in progress involving typically six to 10 companies drawn from diverse business areas. Not only is that considerably cheaper than hiring a consultant – in fact, less than £3,000, or less than half the cost – there is also a considerable advantage in group members sharing problems and generating better solutions.

One of these groups has completed the workshop stage and we now have the first company to gain BS5750 in this manner.

Magnus Robertson,
director,
Agenda – the Centre for Management Training and Business Development,
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Warwickshire CV8 2LG

Uneven pattern in pay restraint by top directors

From Mr A W Vernon-Harcourt.

Sir, Your report on a recent study by PIRC on the pay of top directors in the FT-SE 100 companies ("Salary restraint hits top earners", September 2) suggested that the average pay rise for the best-paid director in 94 of the companies was 2 per cent for companies reporting in the past 12 months.

While our research supports the conclusion that companies have exercised commendable restraints, our analysis of pay increases in the annual reports of some 90 FT-SE 100 companies shows somewhat higher figures. A quarter of the companies reported a reduction in the earnings of best-paid directors, the biggest reduction being 22 per cent. The median increase, when the percentage increases are ranked in order of magnitude, was 8.5 per cent. A quarter received increases of 22 per cent or more.

It should be noted that decisions on base pay increases now being reported in company accounts were often made as long ago as October 1990, when average earnings were rising at around 9 per cent to 10 per cent. At that time we were encouraged to believe the recession would be short term.

Our figures show that bonuses are removed when performance deteriorates. We should also be encouraged that, in spite of the recession, some companies continue to make good profits and can justify high bonuses.

A W Vernon-Harcourt,
director,
Monks Partnership,
Debden Green,
Saffron Walden,
Essex

R&D needs of different sectors

From Dr R C Whelan.

Sir, David Sawers' article, "Blind faith in R&D" (September 2), questions the perceived wisdom that R&D investment is an important measure of future manufacturing competitiveness. The R&D intensity necessary to maintain competitiveness varies markedly between manufacturing sectors. Aggregate inter-country comparisons, as presented in the article, disguise variations in importance of specific manufacturing sectors and of their differing R&D requirements.

Moreover, for sectors like chemicals, automotive and electronics, underinvestment in R&D (albeit in conjunction with other factors) does have significant economic consequences. Between 1980 and 1988 the industrial output in electronics and electrical goods, within the US, Japan and EC combined, increased at an annual rate of 6 per cent in contrast with the UK's 3 per cent. UK companies, despite having a 4 per cent share in industrialised world electrical and electronics output, choose to spend less than 3 per cent of all world R&D in this sector.

This form of analysis supports the contention that focusing on industrial R&D investment, in conjunction with the mechanisms for its subsequent exploitation, is a key element of any governmental industrial policy.

R C Whelan,
chief executive,
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5 Berners Road,
London N1 0PW

Transport tax that makes sense

From Mr Erik Vandenbroele.

Sir, Re your survey of the aerospace industry (September 2) there is a point regarding the future of European transport that needs to be clarified.

Your article points out that "the Commission is planning to introduce Value Added Tax on intra-Community airline tickets ... at around 9 or 10 per cent". This may, out of context, seem excessive. However, in the context of the wider European transport sector and its future harmonisation, it makes good sense. Moreover a number of the Community railways have for some time been subjected to this form of community taxation. Similarly, the airlines have been exempted for excise duties that most European railways have not. Community-wide harmonisation is also being negotiated in this area.

While we sympathise with the European airlines, in the wider context we can only commend and welcome the Commission's initiative in attempting to create an environment that encourages rather than distorts competition among all modes of intra-Community transport.

Erik Vandenbroele,
secretary-general,
Community of European Railways,
Brussels, Belgium

Not a policy of the ANC

From Mr R E Press.

Sir, I refer to the generally interesting and instructive article "De Klerk grasps a dangerous nettle" (August 28), which stated: "They have been the target of the African National Congress, which called on its supporters to kill policemen and their families as part of its campaign to make South Africa ungovernable."

This is not the policy of the ANC.

In view of the revelations by the various commissions of inquiry, the press, the churches and the sworn statements by numerous victims of South African police, and especially in recent times by members of the police force themselves, the African National Congress has acted with utmost restraint. We have consistently called for the police to be subject to law and to be charged and tried by the courts for the terrible actions perpetrated by them or with their connivance.

R E Press,
African National Congress,
PO Box 38,
28 Penton Street,
London N1 9PR

OBSERVER

Weekend in Bath

■ It is six years since Britain last held the EC presidency. But judged by the weekend's meeting of finance ministers in Bath, those charged with running the show have not forgotten how to entertain.

Take for instance the official outing for participants' spouses to Wells Cathedral. No problem there, you would think, except that – as the local paper gleefully pointed out - Norman Lamont is buried there. This was not a bad joke at the expense of the British chancellor's funereal briefing style, but the final resting place of Sir Norman Lamont, a local MP from an earlier, more civilised era.

The present Norman Lamont, by contrast, got a much rougher ride. Whenever the Chancellor stepped out of the peace and quiet of the finance ministers' meeting, he was barracked by protesters ranging from the right-wing Freedom Association to the Revolutionary Communists.

The meeting closed in the shadow of balloons launched from near the city centre. As observers were quick to point out, they sent a mixed signal to the earth-bound ministers and the EC economy: buoyant, drifting, or - given that the meeting overran by more than an hour - just full of hot air?

Tough nut

■ Taking on entrenched interests is nothing new to Joel Joffe, the former Allied Dunbar executive who has launched an attack on his former life assurance industry pals.

A South African by birth, he emigrated to the UK after accepting the brief to defend Nelson Mandela at the Rivonia trials in 1963. Very few white barristers were prepared to take part in the trial, and Joffe effectively ended his career at the Johannesburg Bar by doing so.

He came to the UK instead of his original choice of Australia after the South African government confiscated his passport. Along with fellow South Africans Sir Mark Weinberg and Sir Sydney Lipworth, he set up one of the forerunners of Allied Dunbar. More recently, he has become a big wheel in Oxfam.

Joffe hopes that his latest crusade has a better chance of success than some before. "It's a lot less dangerous than defending Nelson Mandela", he says.

Acid test

■ While Observer hopes not, Norway's Peter Lorange may live to regret writing a book on how to manage academic institutions such as management schools.

True, the 49-year-old strategy professor has practical success in the field behind him, being president of the Norwegian Business School after having run part of Wharton in the US. But while neither of those jobs can have been a doddle, the one he is to take up next year looks to be something else again. He is to head the Institute for International Management Development in Switzerland, uneasily assembled two years ago from the IMI school in Geneva and the rival Imede in Lausanne.

The amalgamation's first head, Juan Rada, quit in the spring after a disagreement with the parent foundation's ex-IBM chairman Caspar Cassani. One contentious issue was apparently the balance of power between the director-generalship and the executive director's job which, perhaps significantly, was held by another alumnus of IBM.

Lorange says the director-general title will henceforth be changed to president, to "make clear who's in charge."

All clear?

■ Would Brian Quinn, the Bank of England's head of banking supervision, really give a speech on "Banking supervision after Bingham" if he had anything to fear from the conclusions of Lord Justice Bingham's overdue report into the BCCI collapse?

The cautious Quinn is not known for sticking his neck out, hence his decision to give a talk on the subject to a group of 25 Bank of England high-flyers last week, suggests that he and his department will still be in a job after Bingham's report is published.

Rampant

■ Talk about the boast of heraldry.

On its members' behalf, Britain's Federation of Small Businesses is urging government to provide a practical shield against the bankruptcies it says are occurring at the rate of one every six minutes. On its own behalf, it is taking up a purely symbolic shield in the form of a coat of arms.

The design – by former federation chairman Bernard Juby, a keen historian and genealogist who has traced his family history back several centuries – is claimed to epitomise many of the qualities of small-business owners.

"Good morning. I'm canvassing on behalf of the Tory party"

Two animals figure prominently. One is a hard-working beaver. The other, a badger, represents not only the federation's lobbying on behalf of its members, but also the badgering of same by bureaucrats in their turn.

The pair of them support a shield depicting one quarter of the union flag, to mark the 25 per cent of the British workforce employed by small businesses and the similar share of the gross national product they generate. Meanwhile more obviously symbolic bees buzz around.

The arms are completed by the federation's motto which, given its latest complaining, has a somewhat quizzical ring. *Nihil fortus – semper eadem*, it goes, "We are the strongest, and will never change".

Bogged down

■ Problems are piling up for Tony Ryan, the embattled founder of GPA – the world's largest aircraft-leasing group. Not only has he had to snatch back the controls from chief executive Maurice Foley, but his sons' airline – Ryanair – has hit yet another pocket of turbulence.

For once Ryanair's problem is not too few passengers, but too many. It seems that one of its promotional fares – the Flying Start travel voucher scheme – has been too successful. Under a joint promotion with Bord na Mona, owners of Ireland's peat bogs, Ryanair's passengers were urged to collect tabs from their bales of peat briquettes which they could redeem against Ryanair travel vouchers.

Since a heavy user could get through as many as five bales of peat a week(costing around £1.40 apiece) and each bale offered a £1 voucher which could be used to pay for up to 55 per cent of the cost of a non-discounted Ryanair fare, the scheme seemed almost too good to be true.

Certainly this was the view of many would-be Ryanair passengers who have exchanged 3m of their peat tabs for travel vouchers. When Ryanair tried to curb the promotion, Bord na Mona took it to court and there the matter resides. One problem for Ryanair is that the promotion seems to have been backed by a verbal agreement, and some of the executives involved have moved on.

What crisis?

■ What's the world coming to if a country has to cancel it's annual cocktail party? Its almost as bad as hauling down its flag, especially when there *is* a crisis on back home.

Hence, a certain incredulity at the explanation given for the abrupt cancellation of one of the highlights of London's summer cocktails season – today's annual celebration of Brazil's independence day. Paulo-Tarso Flecha de Lima, Brazil's ambassador to London, is having to stay in Brazil on account of "force majeure". It is understood that he is not the only Brazilian ambassador to be suffering from FM.

When pressed, de Lima's officials explain that he has problems back home on his farm. Given that de Lima is one of Brazil's most senior diplomats and a close ally of President Fernando Collor, who is insisting on making an appearance at today's national day parade in Brasilia, de Lima's excuse sounds rather lame.

It certainly wouldn't wash with Sir John Kerr, the UK's urbane permanent representative to the European Communities. The see-saw of French opinion polls – tilting the future of Europe this way, then that, with nearly half of voters unable to make up their minds - has the Brussels Eurocracy on edge.

But Britain's man in Brussels insists that come what may, his cocktail party on the day after the French referendum, will go ahead as planned. Make mine a large one, Carruthers.

Cheers

■ Britain's Trades Union Congress opens today in Blackpool amid enough merger and acquisition business to turn the City green. Of particular interest in surrounding bars is the mooted marriage between the GMB and TGWU general unions, which is provoking hot competition to come up with a good name for the combined result.

Current favourite is G & T.

FINANCIAL TIMES
Monday September 7 1992

EFA chief says single-engine aircraft may be considered to cut costs

Plan to save £20bn Eurofighter

By David White, Defence Correspondent, in London

RADICAL CHANGES in the European Fighter Aircraft programme, including a switch to one engine instead of two, are being considered by industrial partners in an attempt to rescue the £20bn project.

Mr John Vincent, managing director of the Eurofighter consortium developing the aircraft, said studies were under way to see if performance targets could be matched by a single-engine fighter.

At the Farnborough Air Show, he said different radar systems for the aircraft were being considered. These included the variants of the current ECR90 radar being developed by a consortium led by GEC-Ferranti of the UK.

The radar choice was decided two years ago after a row between Germany and the UK. Germany said this summer that it would abandon the EFA programme after the development phase was completed and would not go ahead with production. The other countries involved are Britain, Italy and Spain.

Mr Vincent said yesterday that despite Germany's position, "the four-nation element of the entire programme is still being maintained". Senior British officials, however, say they have little or no hope of bringing Germany back into the project as it is currently conceived.

Mr John Weston, chief of British Aerospace's defence division, said the performance requirement still pointed to an aircraft "very similar" to the EFA.

It is thought that the strong position taken by Mr Volker Rühe, the German defence minister, would exclude any aircraft resembling the EFA project.

Mr Weston said the partners were looking at every possibility for cost reduction but still had "a long way to go" in preparing their studies. These are expected to be finished by the end of October in order to be forwarded to ministers of the four countries.

He denied that the studies included a possible equity stake in the project by Saudi Arabia.

Mr Roberto Mannu, the Italian chairman of Eurofighter, said the partners aimed to provide "a kind of shopping list" of elements which partners could draw on to obtain different variants of the planned fighter.

The partners in Eurofighter – BAe, Deutsche Aerospace, Alenia, of Italy, and Casa of Spain – were studying ways of rationalising work-shares and possible gains by buying components off the shelf, he said.

Similar measures are being considered by Eurojet, the engine consortium comprising Rolls-Royce, MTU of Germany, Fiat of Italy, and ITP of Spain.

The industrial studies coincide with a review by defence chiefs of the four countries fighter requirements since changes in the international scene.

Mr Vincent said problems affecting the development of control systems for the aircraft had been mostly overcome and the first prototype should fly later this year.

Cloudy skies, Page 12

THE LEX COLUMN

Paris shares the pain

Many international investors remain overweight in French equities, which gives added spice to the outcome of this month's referendum on Maastricht. The implications of rejection are debated everywhere, discounted nowhere. Suffice it to say that the Paris stock market would fall – probably quite sharply – as the Mitterrand government pushed up interest rates to defend its hard-earned position inside the EMS.

The idea that France might join a general realignment under the guise of a D-Mark revaluation looks implausible on fundamental grounds: if anything German costs have risen more than French ones since the last realignment in 1987. Suggestions that turmoil in financial markets following a No vote would soften the Bundesbank's heart – and accelerate a monetary easing across Europe – sound like so much wishful thinking.

The more pertinent question is how much bounce is left in the bourse if the treaty gets the go-ahead. A combination of more encouraging opinion poll trends, the wheeling out of the political big guns, and a solid if unspectacular presidential performance on television on Thursday night seem to have convinced the market that voters are likely to say Yes.

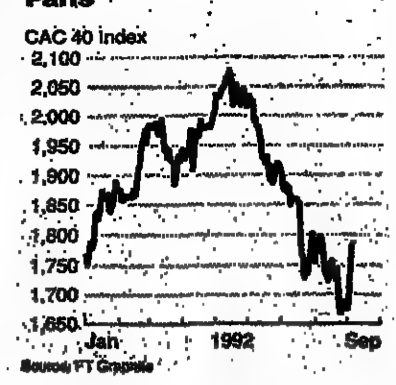
The differential between French government bonds and German bunds at the 10-year maturity had narrowed by Friday night to around 90 basis points, against a recent peak of 125-130 basis points. Dragged up in this fixed interest wake – and helped by the squeeze on investors caught with short positions – the CAC-40 Index ended the week 5.4 per cent higher.

If all goes well on September 20 a further narrowing of the long-term interest rate differential might be expected, providing another modest boost to equities. Whether there would be much else to drive share prices, though, is another matter.

Earnings forecasts for the current year have already been drastically scaled back, but the market has little confidence even in its revised estimates. As recent half-year results from the likes of Elf, Total and Accor have underlined demand in the economy has fallen away. There is certainly scope for export growth, but this is curtailed for the moment by weakness elsewhere.

On fundamental grounds – and relative to other European markets – the French bourse looks historically cheap. But until there is a sharp and decisive downward move in German interest rates Paris looks unlikely to fulfil the promise of earlier this year.

Paris



Source: FT Graphite

UK utilities

Using a price cap formula to regulate privatised utilities has brought significant benefits. Companies have exploited this incentive to cut costs, and in many cases shareholders have seen the results in dividend payments. However, the RPI-X system has thrown up some anomalies, where apparently similar businesses currently offer very different rates of return. British Gas's pipeline operation, the regional electricity companies and the National Grid are all reasonably comparable businesses with similar risks and growth prospects, yet on a current cost basis the RECs return around 10 per cent, the grid is said to earn around 6 per cent and the Ofgas regulator wants to pin British Gas to 4.5 per cent.

True, there are some reasons for the difference. It is arguable that Gas's assets were privatised too cheaply, so the return on existing assets ought to be correspondingly lower. But the company is unlikely to invest in new pipelines at a return no better than that on index-linked gilts. British Gas clearly hopes that the monopolies inquiry will take the point, though it faces an uphill struggle because any improvement in pipeline returns will have to come out of gas marketing margins or customers' pockets.

Part of Gas's problem is historical. The company was told to encourage competition after flotation, and so kept pipeline profits down and marketing margins up to attract a limited amount of competition. However, it has since been forced to give up far more of the gas market than it anticipated, cutting into profits. There is probably room for Gas to expand pipeline returns at the expense of the marketing competition, though unless and until the MMC sees things that way, the shares are in limbo. For the electricity companies, life is brighter. Although it is not formally targeted, their rate of return is bound to be cut in the Periodic Review in 1994. But by then dividend cover will be over three times, and the companies can maintain progressive dividends by simply cutting cover. Shareholders may not even notice the bump to profits.

HSBC

Arbitrage traders have a mixed reputation among companies, but the HongKong and Shanghai Banking Corporation must be wondering what it can do to encourage them. HSBC's sterling shares are now trading at a 7 per cent discount to the Hong Kong dollar-denominated version. Since the securities carry identical rights in respect of voting and dividends, and are available in London and Hong Kong, the anomaly is puzzling. There are some technical differences in the way the shares trade: the Hong Kong stock exchange uses rolling settlement, for example. But this would hardly account for such a significant discrepancy in price.

Another factor may be consistent selling of sterling stock by former Midland Bank shareholders who reluctantly accepted the HSBC offer. Against a background of generally weak trading volume this steady supply of stock could easily depress the sterling share price. Both classes of shares have moved roughly in line with local indices, so indexed funds may be supporting the Hong Kong dollar stock. Fears of a sterling devaluation and hopes for a dollar recovery may also play a part; although the discount has actually widened as the Hong Kong dollar has weakened, and equities are not usually held as a proxy for currency exposure.

Whatever the explanation, arbitrage traders have so far been unwilling to close the gap. Thin trading volume of the sterling shares in Hong Kong may be discouraging even bargain-conscious Far Eastern investors from buying the cheaper stock. Meanwhile, the differential is something of an embarrassment. Midland shareholders who accepted HSBC paper under the offer might justifiably feel short-changed. For the rest of the market, arbitrage traders or not, the cheapest route into HSBC is through the sterling stock.

UK airline passengers to clear US immigration in London

By Tim Burt in London

ALL airline passengers flying to the US from London's two main airports will clear American immigration before leaving Britain following a UK-US agreement to ease border controls, the US Immigration and Naturalisation Service said at the weekend.

The move, backed by the airports operator BAA and involving all scheduled airlines flying from Heathrow or Gatwick to the US, follows a separate UK commitment last week to relax border controls for European Community nationals.

Under the scheme, due to be launched early next year, US officials will check passports at airport departure gates so that passengers will be officially "admitted" to the US while still in London.

Negotiations are continuing in London between INS officials, the Home Office and BAA to iron out any remaining difficulties following "pre-inspection" experiments last year.

BAA officials said they would welcome any move to ease congestion but were anxious to avoid importing the problems of long US immigration lines to London.

Minimum standards for immigration control, meanwhile, have been introduced at Heathrow. "EC nationals should queue for no more than three minutes and non-EC nationals for no more than 10 minutes," BAA said.

BAA is seeking flexibility in staffing to increase the number of immigration officers on duty at peak times.

Fixed shifts for airport security staff have been abandoned but similar moves for Home Office employees could encounter union opposition.

The INS is recruiting non-union immigration officers to oversee introduction of the US scheme, which it hopes will be fully operational by spring 1993.

INS officials in Washington said the service, first introduced in Canada and subsequently at Shannon in Ireland, would ease congestion at busy US airports where travellers often face long immigration delays.

Mr Richard Kenney, chief of INS public affairs, said passengers arriving from Britain would avoid delays caused when several international flights arrive at a US hub close together.

The costs of the scheme are expected to be passed on to airline passengers, who will pay a $5 ticket surcharge, Mr Kenney added.

While welcoming the immigration initiatives for US-bound travellers, American executives have called for reciprocal arrangements at US airports.

"Business travellers would like to clear UK immigration in the US. If they could avoid the lines at Heathrow they would jump at it," said Mr Joe Brancatelli, executive editor of Frequent Flier, a New York magazine published by Official Airline Guides and distributed to 320,000 US businessmen.

Jeux sans frontières, Page 5

A Lebanese soldier in the southern city of Sidon walks past a wall filled with posters of candidates running in yesterday's final round of parliamentary elections Report, Page 3

Eurotunnel and contractors likely to miss cash deadline

By Andrew Taylor and Robert Peston in London

EUROTUNNEL and contractors building the Channel tunnel last night appeared unlikely to beat a deadline to resolve their latest financial crisis today.

Contractors said there were no plans for the two sides to meet, although that could change following talks in Paris yesterday between bankers and Sir Alastair Morton, Eurotunnel's chief executive.

The banks have said they may prevent Eurotunnel drawing further funds for the £8bn ($15.9bn) project unless agreement is reached quickly over contractors' claims for more than £1bn in extra payments. The next £100m of loans is due to be drawn on September 30.

Although banks have urged both sides to settle by tonight, Eurotunnel and contractors believe talks can continue for several days.

Transmanche-Link, a consortium of five British and five French contractors, says extra cash is needed to meet the increased cost of the project which, including finance charges, has risen since 1987 from £4.8bn to more than £8bn.

The dispute could lead to new intervention by the Bank of England, which has previously acted as a referee in cost disputes between contractors and Eurotunnel.

Leading banks of the consortium of 206 banks which have agreed to provide £6.8bn to Eurotunnel, on Friday informed Mr Pen Kent, an associate director of the Bank of England, of their latest ultimatum.

They stressed yesterday that the Bank was not actively involved in attempts to find a solution but did not rule out Mr Robin Leigh-Pemberton, the Bank's governor, eventually acting as an arbitrator.

The latest dispute is over contractors' claims for additional payments of £1.2bn at 1985 prices. This includes £800m to cover the increased cost of fitting-out rail tunnels and building terminals at Folkestone, in Kent, and Sangatte, in northern France.

The other £400m has been claimed to cover higher costs in other parts of the project, some of which Eurotunnel has already agreed to pay.

In total, Eurotunnel is thought to have offered the equivalent in 1985 prices of an extra £550m to £600m in cash and £200m in some form of equity, likely to be a convertible debenture. This would make the total package worth £750m to £800m.

The deal is thought to be about £150m less than the contractors have indicated that they might be prepared to accept.

Another sticking point is thought to be what proportion of the deal should be provided by equity and how this element is to be valued, given the weakness of Eurotunnel's share price.

Since early summer both sides have insisted that there is not much difference between them. What has worried bankers is that this gap, however small, has shown so little sign of closing. They hope that by exerting financial pressure on the project they will be able to persuade both sides to settle.

Kohl moves to end divisions

Continued from Page 1

violence against asylum-seekers in east Germany, and its inability to agree on how to finance subsidies to east Germany.

It emerged at the weekend that Mr Kohl was sharply attacked by members of his own CDU national executive at a two-day closed meeting near Bonn last week. According to Der Spiegel, the news magazine, said regional party barons accused him of having "lost control", and the government of being "planless".

The meeting failed to reach an agreement on a compulsory levy, or voluntary tax-free government bond. The CDU leadership was only able to accept a vaguely worded call for a "solidarity pact" with east Germany.

The debate amounts to a considerable embarrassment to Mr Kohl, who has always insisted that the costs of unification can be borne without any further tax increase. Mr Björn Engholm, leader of the SPD, has stepped up the challenge to the chancellor by proposing a "grand coalition on issues". In an interview with the Süddeutsche Zeitung, he proposed a broad consensus on the key issues of new funding for the east, and controlling immigration-related racist violence.

EMS test

Continued from Page 1

would have to be prepared to sell $5bn or $10bn-worth of D-Marks a day for one or two days to convince the markets that they were serious about stabilising currencies.

Mr Gerry Holtham, economist at Lehman Brothers in London, said the Bath talks were "not likely to dissipate the feeling that the Bundesbank is not prepared to modify its policies for international reasons". Mr Anders Fogh Rasmussen, the Danish economy minister, said Germany came under "colossal pressure" in Bath to cut its interest rates.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	C	16	61	Frankfurt	S	16	61	Majorca	S	27	81	Oporto	S	22	72	Tenerife	S	28	82
				Brussels	S	17	63	Geneva	S	16	61	Malaga	S	26	79	Oslo	S	13	55	Tokyo	F	25	77
				Budapest	F	17	63	Gibraltar	S	23	73	Malta	F	26	79	Paris	S	19	66	Toronto †	F	19	66
Ajaccio	S	24	75	Buenos Aires	F	17	62	Glasgow	R	15	59	Manila	C	31	88	Prague	F	11	52	Tunis	F	29	84
Algiers	S	29	84	Cairo	S	32	90	Helsinki	S	14	57	Melbourne	C	13	56	Reykjavik	F	9	48	Valencia	C	26	79
Amsterdam	F	16	61	Cape Town	S	17	63	Hong Kong	R	26	79	Mexico City	R	23	73	Rhodes	S	28	82	Venice	S	22	72
Athens	S	26	79	Caracas		-	-	Innsbruck	S	16	61	Miami †	S	29	84	Rio de Janeiro		-	-	Vienna	F	11	52
Bahrain	S	37	99	Casablanca †	C	24	75	Inverness	R	14	57	Milan	S	22	72	Rome	S	25	77	Warsaw	R	10	50
Bangkok	F	35	95	Chicago †	F	21	70	Islamabad	C	26	79	Montreal †	C	18	64	Salzburg	C	13	55	Washington †	R	21	70
Barcelona	F	[illegible]	73	Cologne	S	15	59	Istanbul	S	23	73	Moscow	S	21	70	S'Francisco †	F	13	55	Zurich	S	15	59
Beijing	S	26	79	Copenhagen	S	15	59	Jakarta	R	31	88	Munich	F	13	55	Seoul	F	30	86				
Beirut	S	30	86	Corfu	S	25	77	Johannesburg	S	25	77	Nairobi		-	-	Singapore	F	32	90				
Belfast	C	17	63	Dallas †	F	24	75	Lisbon	S	26	79	Naples	S	25	77	Stockholm	C	10	50				
Belgrade	C	18	64	Dublin	Dr	[illegible]	66	London	R	[illegible]	59	Nassau	F	32	89	Strasbourg	F	17	63				
Berlin	F	16	61	Dubrovnik		-	-	Los Angeles †	F	18	64	New Delhi		-	-	Sydney	S	17	63				
Biarritz	S	24	75	Edinburgh	F	15	59	Luxembourg	F	15	59	New York †	C	18	64	Taipei	C	33	91				
Bombay	F	30	86	Faro	S	27	81	Madeira	S	25	77	Nice	S	23	73	Tangier	S	25	77				
Bordeaux	S	22	72	Florence	S	24	75	Madrid	S	28	[illegible]	Nicosia	S	30	86	Tel Aviv	F	31	88				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

Monday September 7 1992

INSIDE

Mediobanca lifts profits by 20%

Mediobanca, Italy's leading merchant bank, recorded a 20 per cent increase in net profits to L262.1bn ($244m) in the year ended June 30, from L220.4bn the previous year. The bank is proposing an unchanged dividend of L200 per share on its 340m shares in circulation. It is also proposing to set aside L193bn to reserves. Page 17

Taking control of Union's debt

When Mr Terry Robinson (left), the former Lonrho director, joined Union International, the Vestey family's trading arm, as chief executive earlier this year he was in for a surprise. Net debt had grown from £269m at the end of 1990 to £420m ($835.8m), but no one at the group could offer a suitable explanation why. "There were no financial controls," says Mr Robinson. It compounded his problems in persuading the funding banks that Union had taken effective control of its businesses. Page 16

Pessimism stirs Japan's bonds

While hopes of an imminent cut in Japan's official discount rate were dashed by the Japanese government's fiscal stimulus package, bond market participants remain bullish on the back of continuing weakness in the country's economy. Page 17

UK gilts take an autumn tonic

The UK gilt-edged market has had an agonising summer, worried by the two bugbears of sterling weakness and funding pressure. Last week, the government succeeded in dispelling those fears in one fell swoop: it announced that it would borrow the equivalent of Ecu10bn ($14.4bn) in D-marks and a range of other foreign currencies, using the funds to support sterling in the foreign exchange market and to fund government spending. Page 18

Jobless data spur US rally

The US unemployment figures and limited action by the Federal Reserve spurred a rally in the Treasury bond market on Friday. The price of the 30-year benchmark Treasury issue gained nearly a full point on the day and the yield fell to 7.28 per cent, a level seen briefly last month, but more recognisable as the yield more than five years ago. Page 20

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Ryan returns to helm in GPA shake-up

By Tim Coone in Dublin and Angus Foster in London

GPA, the world's largest aircraft leasing group, has announced a wide-ranging management shake-up following its aborted stock market flotation in June.

Mr Maurice Foley, the chief executive appointed two months before the planned flotation, has been replaced by the company's chairman and co-founder, Dr Tony Ryan.

The company said yesterday: "The board has decided that it is in the company's best interests that there should be just one leadership focus.

"Accordingly, Dr Tony Ryan will resume the position of executive chairman and the role of chief executive with immediate effect."

The change follows mounting problems for GPA which, denied the proceeds of the flotation, is seeking other ways to raise money to meet its commitments to buy new aircraft.

Mr Foley will continue as deputy chairman with responsibility for relationships with institutions and shareholders, and for strategic planning.

Mr Jim King, former deputy chief executive for leasing, has been promoted to vice-chairman. His main task will be to try to reschedule some of the $12bn GPA is committed to spend on aircraft orders with the world's major manufacturers up to the end of the decade. About $7.1bn of the total will have to be found by the end of 1994.

Mr Colm Barrington is promoted to chief executive responsible for GPA Leasing and GPA Capital.

The reshuffle was apparently decided at a board meeting a month ago. An industry source said Mr Foley was seen as "too cerebral" and a tougher, more market-driven approach was needed.

In the lead-up to the flotation, a row broke out between the company and its stockbrokers over the offer price. The company was aiming for $25 to $30 per share but, after a public row, had to settle for $20 to $24, which could would have raised up to $1bn.

Difficult market conditions led to a lack of interest especially by US investors, forcing the company to abandon the flotation.

Since then the company has looked at ways to raise money, although the likely value of GPA shares is understood to have fallen considerably.

The company outlined three priorities: a private placing of new shares; cancelling or rescheduling some aircraft purchase options and firm orders at a minimum cost in penalties; completing further aircraft securitisation packages under which groups of aircraft are sold to investors with leases attached.

The first such package, known as Alps 1, raised $500m in June. The company hopes to have a similar package, Alps 2, completed this autumn.

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Alitalia's chief executive, Giovanni Bisignani, talks to **Haig Simonian**

A high flyer with his feet on the ground

Giovanni Bisignani, chief executive

Mr Giovanni Bisignani, chief executive of Italy's state airline, Alitalia, betrays none of the enthusiasm, let alone egomania, that infects some executives once they get their hands on an airline.

Judging by the pie-charts on his computer or the neatly presented information at hand, Alitalia, with 29,000 staff and 1992 sales of L6,000bn ($5.6bn), could just as well be a steelmaker or a phone company as something exotic like an airline.

Mr Bisignani became chief executive in 1989, and recently climbed even higher to become chairman of the Association of European Airlines (AEA), which links the continent's scheduled carriers. As the industry spokesman he addresses issues such as deregulation and international air traffic control.

He is outwardly forthright on both subjects but, as head of a company with a virtual monopoly on major domestic routes, is more open about air traffic control than deregulation.

"The problem is not technical but political and it lies in the hands of national governments and the European Community," he says.

"There are 54 control centres with 31 different systems, supplied by 18 computer manufacturers, with 22 different operating systems in over 70 programming languages. All this makes the European system not only complicated, but expensive to manage and extremely inefficient."

The AEA has pressed for action to sort out Europe's fragmented ATC. Mr Bisignani welcomes the commission's July go-ahead for a plan to harmonise the system. The first target – compatible computerised radar systems by 1996 – would replace antiquated methods whereby data about an aircraft in flight are passed by phone between centres.

But he remains cautious: the proposal has to be approved by EC transport ministers, and governments are loath to give up sovereignty over their skies. Commercial interests mean each country would like its own version to be the model for Europe's harmonised system. "We need to see action now," he says.

He is equally forthright on deregulation, but within the boundaries of Alitalia's rather one-sided view of "open skies". "Europe's airlines must avoid the mistakes made in the US following deregulation. All they've done is to move from an oligopoly based on four names to a new oligopoly based on four other names. It's not good for the industry, it's not good for passengers".

The culprit, for Mr Bisignani, is Chapter 11 of the US bankruptcy code, which allows a company to continue trading while under protection from its creditors. "The strong carriers build up cash until one of them decides to launch a fares war in the hope of driving out weaker rivals. But they can survive thanks to Chapter 11. The result is a mess. We mustn't do the same."

His concept of deregulation differs from the virtual free-for-all in the US, and, increasingly, among privatised European carriers. He makes much of the "freedom of the skies" over Italy, claiming Lufthansa already flies to more destinations in Italy than in its home market and that Alitalia faces domestic rivals.

In fact, the company has fought successfully to fend off challengers. Under a deal with the government last year, it renewed its near monopoly of major routes for a further decade, with smaller regional carriers being offered the crumbs. Such lack of direct competition perhaps explains why internal services, though improving, remain poor by other airlines' standards.

Mr Bisignani is wary of big airline mergers, in spite of the British Airways-US Air tie-up and the threat to Europe's carriers by US "mega-carriers". Surprisingly, he draws comfort from BA's deal with US Air, although it probably spells the end of its 1990 marketing pact with Alitalia.

But the accord has not altered his scepticism about alliances. Recent European enthusiasm for mergers has come from airlines which either lack a large domestic market or which have the market, but are less productive than their counterparts.

"People used to think that airlines could overcome efficiency problems simply by growing. That's no longer possible. The market is not expanding like before, and yields are falling. The only way to drive down costs in a market which has become more volatile is to be flexible. The danger is that greater size leads to less flexibility."

He has been trying to instill flexibility in Alitalia. Multi-year contracts with pilots, cabin crew and ground staff have cut strikes, although it still suffers from industrial action by outsiders.

The new contracts mean pilots will fly around 520 hours a year, comparable with other European airlines with similar networks. Accusations of unreliability are met with AEA figures showing it was Europe's most punctual airline in 1990. – a fact that would surprise many domestic travellers. Earnings, though still in the red, recovered "better than any other airline" from the shock of the Gulf war, he claims.

The company, ploughing L6,000bn into a five-year investment programme, 80 per cent of it to update and expand its fleet, has become so bullish that it has introduced a frequent-flyer programme to raise "brand loyalty".

Such confidence shapes Mr Bisignani's views on mergers. "A national airline today needs a critical mass. That means between 25m and 30m passengers a year and a substantial home market. Alitalia should carry at least 21m people this year and still has to concentrate on improving productivity and service." When its targets are met it might start thinking about partnerships "on an equal basis".

With privatisation very much in the air in Italy, might Alitalia, with almost 16 per cent of its shares quoted, be poised to float more equity on the back of greater efficiency and profits?

The company is hardly an investor's dream, having failed to pay a dividend since 1988. "This year we will have a positive result," says Mr Bisignani. But he declines to be more specific as to whether he means before or after tax – probably the best indicator it has some way to go.

Many UK companies fail to reveal R&D costs

By Andrew Jack in London

MANY British companies are not showing the amount they spend on research and development in their annual accounts in spite of an accounting standard normally requiring its disclosure.

An analysis for the Financial Times by Company Reporting, the Edinburgh-based monitoring service of accounts, shows that 10 per cent of quoted companies with evidence of R&D expenditure do not publish the amount they spend.

But SSAP 13, a UK accounting standard, says R&D expenditure on the profit and loss account should be disclosed and analysed between spending in the current year and that capitalised over future years.

There are notes on the treatment of R&D in the accounting policies section of the latest accounts for companies including Rothmans International and Tate & Lyle but no disclosure of amounts.

Mr Jan Du Plessis, group finance director at Rothmans International, said his company did not provide a figure for R&D because the amount was insignificant. It disclosed its accounting policy on R&D because that was "prudent".

Similarly, references to R&D are made in the directors' reports of companies including Asda, RMC, BET and Forte, but none shows how much is spent. J Sainsbury's directors report says only that R&D expenditure "exceeds £4m"($7.9m).

From 597 companies which reported in the past year, 236 or 40 per cent refer to R&D spending, usually in the directors' report or the accounting policies.

However, 58 companies, or 25 per cent of those which show some evidence of R&D, do not disclose the sums they spend.

Reformers run the gauntlet of politics

By Alexander Nicoll, Asia Editor

Mr Manmohan Singh and Mr Sartaj Aziz, the finance ministers of India and Pakistan respectively, are both bold reformers. They are attempting to steer their countries away from socialist-inspired bureaucracy and to shift the impetus for growth to the private sector.

They are eloquent and sincere technocrats rather than career politicians. But their reform policies at present enjoy a political consensus. Each has the enthusiastic backing of his prime minister, and the grudging acquiescence of opposition parties.

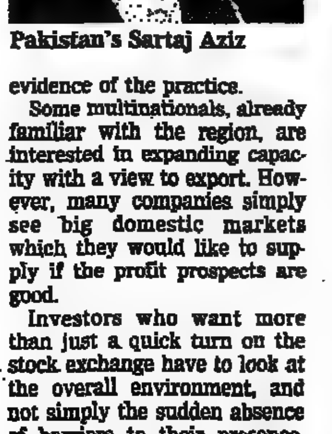
Their tasks are huge, and the achievements already significant.

Since elections in October 1990, Pakistan has abolished licensing (bureaucratic sanction for corporate investment); undertaken rapid privatisation of industry and banks; removed virtually all restrictions on currency movements and foreign investment; deregulated interest rates; started to dismantle trade barriers; and begun big improvements in physical and social infrastructure.

Since India's elections in June 1991, the government has abolished licensing; cut the fiscal deficit; removed most restrictions on foreign investment; made the rupee partially convertible; relaxed import curbs and begun to cut tariffs; reduced subsidies and deregulated interest rates; and started the restructuring of state industry, with tentative steps towards privatisation.

Mr Aziz and Mr Singh are trying to maintain a momentum which will prevent a variety of special interests – bureaucrats, industrialists protected by tariff barriers, labour unions – from regaining the initiative and tilting back towards the cosy excesses of public sector domination.

Yet the international response to their programmes has generally been to applaud the intent, but to await further



Pakistan's Sartaj Aziz

evidence of the practice.

Some multinationals, already familiar with the region, are interested in expanding capacity with a view to export. However, many companies simply see big domestic markets which they would like to supply if the profit prospects are good.

Investors who want more than just a quick turn on the stock exchange have to look at the overall environment, and not simply the sudden absence of barriers to their presence. And in spite of the political honeymoon, the fact is that politics is never far away.

In India's democratic cauldron, the Rs35bn ($1.27bn) stock market scandal has become embroiled in politics, with a joint parliamentary committee raking over complex transactions already investigated by at least two other bodies.

Mr Singh has spent months dealing with the scandal. But, asked whether the speed of reform has started to slip, he says "there is not much of substance in what is being said on this subject".

The pace, he insists, is exactly in line with the programme of reform first set out last year.

Nevertheless, key elements of reform – privatisation, reduction of fertiliser subsidies, restructuring or closure of loss-making state industries – are very tricky to push through politically.

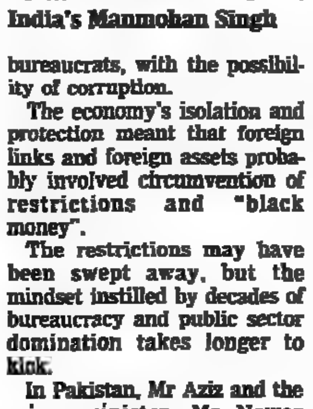
Old assumptions in all areas of society about the role of the state have to be delicately addressed, and a consensus for change sought.

The politicisation of the scandal has exposed intense suspicion of links between the private and public sector.

If senior officials are found to have spoken on the telephone with private sector businessmen, the almost automatic assumption is that corruption is involved. Foreign ventures of Indian businessmen are treated in the press as though they were suspect.

Clearly, this ingrained attitude is a hangover from the days when the "license raj" meant that the private sector did depend on the favour of the bureaucrats, with the possibility of corruption.

Economics Notebook



India's Manmohan Singh

The economy's isolation and protection meant that foreign links and foreign assets probably involved circumvention of restrictions and "black money".

The restrictions may have been swept away, but the mindset instilled by decades of bureaucracy and public sector domination takes longer to kick.

In Pakistan, Mr Aziz and the prime minister, Mr Nawaz Sharif, are frustrated that they have not seen more foreign investment when they have created, as they see it, an environment among the most liberal in Asia. They have sought the advice of several public relations consultants on how to trumpet their message abroad.

Again, the political background is important. Pakistan's tortured political history leaves outside observers unsure of the relative influence of the elected government, the army and the president – the so-called "troika".

They are also uncertain of the future role of Islamic practices in the financial system. The taxation structure is a mess, and it is not clear that the political will exists to tackle it. The bureaucracy is still ponderous and interfering.

What both finance ministers need is faster economic growth and exports to bolster the domestic political argument at the same time as lower fiscal deficits to satisfy international lending institutions.

This is a tall order, especially when export markets are depressed.

How galling it must be for these democracies to see export-oriented foreign investment pouring into China, which has been engaging in similar economic reforms while firmly keeping the lid on political expression.

It is true that other considerations apply. The Chinese labour force may be thought to be cheaper and more productive. Much of the investment in China is from overseas Chinese in Hong Kong and Taiwan.

Investors are betting the Chinese communist party is not going to collapse like its Soviet counterpart, so they feel they can expect stability even if they are uncomfortable with the politics. Also, China's reforms have not come overnight: they have been underway for 13 years, and they still have a long way to go.

This means that the sub-continent's reformers have to be patient and stay the course, provided that they can maintain the political advantage. Meanwhile they deserve all the help they can get from the outside world.

COMPANIES AND FINANCE

Abdullahs acquire more shares in Alexander Russell

By Peter John

ALEXANDER Russell, the biggest sand and gravel company in Scotland, has once again attracted takeover talk following the announcement that the group's largest shareholder had increased its stake.

The shareholder, Royalty Finance, is a Swiss-registered Arab consortium. It is a vehicle for Mr Raschid Abdullah and Mr Osman Abdullah, the brothers who run the engineering and quarrying business Starmin.

It has boosted its stake in Alexander Russell by 250,000 shares and now holds 15.67 per cent of the capital.

Starmin implied yesterday that, while the stakebuilding was merely opportunistic, a full-scale bid had not been ruled out.

"There was one per cent available and Royalty bought it but it is not the precursor of an immediate launch of a bid," the company said.

Fears initially developed in January when Royalty acquired 14 per cent of Alexander Russell's shares and asked the Glasgow-based company to provide a copy of its shareholders' register, suggesting that it was preparing a circular.

The Abdullah brothers came to prominence after they built up Evered (now Evered Bardon) into one of the largest quarrying businesses in Britain. They turned it from an engineering shell into one of the most aggressive and expansionist mini conglomerates of the early 1980s.

In 1989 they were ousted following a boardroom conflict and bought into the Guildford-based Starmin, which they used to purchase quarries and concrete businesses in Scotland.

They have previously suggested co-operation agreements with Russell at least twice over the past two years but nothing came of them.

GEC shows slight rise in current year

THE ANNUAL meeting of GEC was told that sales in the current year were marginally down but profits were slightly higher compared with a year ago.

Lord Prior, chairman, said the principal businesses – electronics systems, power systems and telecommunications – were maintaining high order books and benefiting from the restructuring measures taken earlier.

However, in some other trading sectors "we are not progressing as we would wish; market conditions are not improving, and further action will be taken."

The policy of requiring profits to show in cash had led to increases in bank balances with consequent higher interest income.

Last week Yarrow Shipbuilders, a subsidiary, announced that it was to cut 510 jobs because of a gap in its order book. Last year, GEC shed about 5,000 staff in a restructuring of its defence activities.

Towards a smaller but more interesting Union

Roland Rudd reports on the progress of the restructuring in the Vestey empire

WHEN Mr Terry Robinson, the former Lonrho director, joined Union International, the Vestey family's trading arm, as chief executive earlier this year he was in for something of a surprise.

Net debt had grown from £269m at the end of 1990 to £420m, yet no one at the group could offer a suitable explanation why. "There were no financial controls," says Mr Robinson. "No one knew why borrowings were increasing because no one knew who was spending what."

Subsidiaries, ranging from cattle ranching to food processing to the JH Dewhurst butcher chains, set their own capital expenditure with little direction from the centre. As a result, the group breached its banking covenants last year.

The empire of the Vesteys, one of Britain's wealthiest families, had expanded rapidly, buying land and assets in South America, Australia and Europe. Union had acquired interests in ranching, food processing, canning, fruit distribution, commercial property and butchers chains.

Mr Tim Vestey, at only 30, became the latest Vestey to take over the reins of chief executive last November. In order to persuade the banks to continue to fund Union he promised to bring in an outside professional to run the company. The Vesteys' choice was Mr Robinson.

The situation was more serious than it may have at first appeared because Union was no longer rich in assets. The net assets, after peaking at £215.4m in 1989, fell to £176.7m the following year.

Terry Robinson (left) and Tim Vestey: further disposals

Tony Andrews

A severe downturn in the property market will lead to the write-down of Union's property value by more than £60m in the accounts for 1991, expected to be published next month. Rationalisation of some of the businesses is also likely to lead to a substantial additional write-down of net assets. They will fall below £42m at the end of 1991 – less than a quarter of 1990's value and less than half of the called up capital of £83.7m.

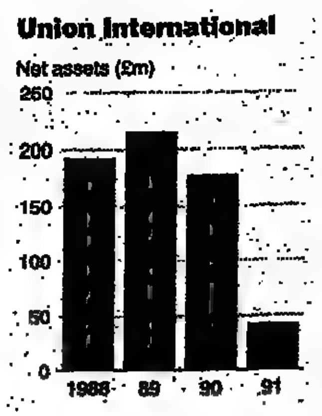
One lead banker said the group was in a "real shambles" when Mr Robinson arrived.

To persuade the steering committee of nine banks, led by Lloyds, to agree to extend repayment of their loans until the end of 1994, Mr Robinson had to convince them that Union had taken more effective control of all its businesses.

First, he introduced management meetings every Monday morning for detailed financial planning for Union's diverse operations. Participants were also expected to decide which businesses should be sold and which should be kept.

Each subsidiary was given a profit target and a cap on capital expenditure. An incentive programme meant that up to a third of managers' salaries could be generated by performance related pay.

Second, Mr Robinson recruited Mr Paul Taylor, a senior executive from Lonrho, as his finance director to head up a new finance committee. This would monitor the results of the managers' meetings by ensuring that spending targets and profit forecasts were met.



By the end of July the group could offer the bankers some evidence that it was taking effective control. Net debt had been reduced by £83m over the year and was falling towards the £300m mark.

In addition to the effect of the financial controls, the debt had fallen because of a number of selective disposals. The South African fruit and bottling businesses were sold for £13m, the Australian ranching interests for A$45m (£16.6m) and some of its smaller food companies went for £10m.

Mr Robinson says Union will now focus on being a food processing and distribution group. All the other interests are up for sale. "We will be a much smaller company, but perhaps a more interesting one."

Union has already earmarked further disposals. It is trying to sell Dewhurst and Vestey Estate property, which include office developments in the City. Depending on how quickly it can reduce its debt, it may sell majority stakes by way of flotation in many of its ranching and food processing companies in South America.

Mr Robinson said: "Pension funds increasingly believe they should hold a small percentage of their funds in the less developed world. This is why flotations of some of our businesses in the emerging stock markets of South America looks a more attractive option today. We do not need to control 100 per cent of all our subsidiaries."

In the event of the worst case scenario – were Union to find that it was not reducing its debt as fast as expected – Mr Robinson says he would be prepared to sell the Dewhurst butchers chain, which is being slimmed down from 1,000 retail outlets to 600.

All of this is designed to reassure the bankers who are being asked to give their approval to the £300m refinancing agreement including easier banking covenants. Mr Robinson has agreement of the big nine, which include Midland, Barclays and Standard Chartered. He now needs every one of the other 70 to agree to stretch out their loans.

Bankers said they were not greatly surprised or disappointed by the details of the refinancing The smaller ones may quibble with elements of the debt rescheduling proposal. But they may, in the end, decide there is no alternative to the restructuring proposal.

NEWS DIGEST

Sales ahead 9% so far at Menzies

SHAREHOLDERS at the annual meeting of John Menzies, the wholesale and retail distributor, were told that sales in the first quarter had increased by 9 per cent over the same period last year although consumer demand in general remained at a low level.

The company's cash position was healthy and the cost structure was under tight control. Prospects for the full year depended as always on the Christmas period.

The recent referral of the newspaper wholesaling industry to the Monopolies and Mergers Commission would take up much management time, the meeting was told.

Cons Venture net assets fall

Net asset value per ordinary share of Consolidated Venture Trust declined from 275½p to 269¾p over the 12 months ended July 31.

For the six months to July 31 the trust incurred a net loss of £8,000 compared with available revenue of £115,000 for the same period of 1991. Losses per share emerged at 0.078p (earnings 1.08p).

Cranswick buys food company

Cranswick, the USM-quoted pork products-based food company, is buying FT Sutton & Son (Rossendale), a Lancashire manufacturer and wholesaler of cooked meats and fresh pork products.

Initial consideration is £1m with a further payment of up to £750,000 dependent on profits. The initial payment will be met via the issue of 781,233 new shares and £22,500 cash.

For the year to June 27 1992 Sutton achieved a pre-tax profit of £227,880 on sales of £3.1m. Net assets at the period end totalled £518,000.

Whitbread in cash disposal

Whitbread has sold its Pizza Hut business in Belgium and the Netherlands to Pizza Hut International, its joint venture partner, for a cash consideration.

Included in the sale were 21 outlets which were currently trading and two sites in the Netherlands which were near to completion.

The value of the net assets disposed of was less than 5 per cent of Whitbread's net assets at February 29.

CrestaCare in £2.4m sale

CrestaCare, the nursing and retirement homes operator, has reached agreement for the disposal of three Isle of Man commercial properties for £2.4m phased over a period ending March 1994.

Bennett & Fountain Group

Proceedings brought by Bennett & Fountain Group and Bennett & Fountain Ltd on July 30 1992 against their former chairman and director Mr Phillip Aginsky alleging fraudulent conduct, fraudulent misrepresentation and breach of fiduciary duty against Mr Aginsky have been unreservedly withdrawn on terms mutually satisfactory to all parties.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Sarrio (Spain/Italy)	Papirnica (Slovenia)	Cardboard	£44m	Privatisation deal
Artal (Belgium)	Unit of Unigate (UK)	Food	£37m	Unigate continues restructuring
HP Bulmer (UK)	Cidrerie Stassen (Belgium)	Drinks	£7.2m	European bridgehead
Bowthorpe (UK)	Odessa Engineering (US)	Environmental monitoring	£7m	Strengthens market position
Cooper Industries (US)	Unit of Ifint (Luxembourg)	Auto parts	£305m	Agnelli family selling
Peek (UK)	Gemo Elektro (Norway)	Traffic control	£0.4m	Continues European expansion
Alcoa (US)	Alutudos (Mexico)	Metals distribution	n/a	Part of strategic change
Credit Foncier (France)	Capital Home Loans (UK)	Banking	n/a	SocGen exits UK mortgages
Morgan Crucible (UK)	Refractories and Mineral Investments (Holland)	Ceramics distribution	n/a	Part of a handful
British Airways (UK)	Transport Aerien Transregional (France)	Airlines	n/a	Stake talks well advanced

Strategy and the single market were important factors in last week's new and emerging international deals, writes Brian Bollen. UK companies featured prominently, by volume if not value.

With its eyes very much on the imminent European single market, UK cider maker HP Bulmer increased its continental presence by buying Cidrerie Stassen of Belgium. British Airways' advanced talks on taking a stake in French regional airline Transport Aerien Transregional form part of the world's most acquisitive airline's strategy of taking stakes in smaller carriers ahead of the single market.

Bowthorpe of the UK strengthened its position in the environmental monitoring market with its purchase of Texas-based Odessa Engineering. Traffic systems group Peek became the leading player in the sector in Norway by buying Gemo elektro. Morgan Crucible demonstrated the benefits of being well placed to take advantage of the lower prices on offer because of the recession, announcing the completion of five separate acquisitions.

Food and transport group Unigate continued the restructuring of its portfolio by agreeing to sell its US cheese businesses toa company ultimately owned by Belgium's Artal.

France's Societe Generale joined the exodus from UK domestic mortgages, by selling its 51 per cent of Capital Home Loans to Credit Foncier, its partner in the venture.

Spanish carboard maker Sarrio's purchase of Papirnica Kolicevo was noteworthy for being one of Slovenia's largest privatisation sales to date as well as the biggest investment so far by a Spanish company in eastern Europe.

COMPANIES AND FINANCE

Mediobanca advances to L262bn

By Robert Graham in Rome

MEDIOBANCA, Italy's leading merchant bank, recorded a 20 per cent increase in net profits to L262.1bn ($244m) in the year ended June 30, from L220.4bn the previous year.

The bank is proposing the annual meeting on October 28 approve an unchanged dividend of L200 per share on its 340m shares in circulation. It is also proposing to set aside L118bn to reserves.

The profits came after a L153.1bn provision to cover loans at risk and write-downs in the bank's share portfolio, compared with a total of L213.4bn in the year 1990-91. Write-downs in the share portfolio accounted for L83bn against L148.8bn last time.

Although the portfolio adjustment was considerably less than 1990-91, this only covered stock market movements up to the end of June. Until then the Milan bourse had fallen only 10 per cent; but since then it has fallen sharply and by the weekend was down 30 per cent on the year.

Mediobanca shares have reflected this decline, being quoted below L9,000 against a February high of over L15,000. Apart from investor nervousness, this has reflected the arrest and imprisonment on charges of alleged corruption in connection with the Milan municipal scandal of Mr Salvatore Ligresti, a Mediobanca board member and a leading construction entrepreneur.

The board decided on Friday to retain Mr Ligresti in his position, who is also a shareholder, even though he has been in prison for two months, and other changes were made.

New members co-opted on to the board were Mr Giuseppe Bruno, chief executive of Credito Italiano, Mr Eugenio Coppola di Canzano, president of Generali, Mr Pietro Marzotto, head of the family textile conglomerate of the same name, and Mr Giampiero Pesenti, president of Italmobiliare, reflecting a careful balance of Mediobanca's institutional and private shareholders.

Among those leaving the board were Mr Piero Barucci, formerly head of Credito and now treasury minister, and Mr Carlo de Benedetti, the head of Olivetti.

Salvatore Ligresti: in prison for two months

Thai Air director faces inquiry

By Victor Mallet in Bangkok

THE MAN chosen by Thailand's civilian government as the preferred next president of Thai Airways International (Thai), the listed national airline is facing an investigation for corruption and mismanagement, officials in Bangkok announced at the weekend.

The allegations against Mr Chatrachai Bunya-Ananta, executive vice-president, were interpreted as an attempt by air force officers to discredit their rivals in the airline's management team and damage Mr Chatrachai's chances.

The interim government has moved quickly to reduce military influence and corruption in business since it was appointed in June, but its efforts to change Thai Airways' articles of association (which give the air force automatic control of the board) before the general election on September 13 have met stiff resistance.

The confrontation, focusing on the need for professional management of such a large international company, is expected to come to a head today at an extraordinary shareholders' meeting.

Mr Chatrachai will be investigated by the Counter-Corruption Commission because the CCC received a 232-page document suggesting, among other allegations, that he is involved with two transport companies which compete with Thai Airways and has profited from ticket sales and a printing contract for the in-flight magazine.

Mr Chatrachai, who has worked for Thai Airways for more than 20 years, said he was innocent and welcomed the chance to clear his name. "It's good because we can settle the matter once and for all," he was quoted as saying.

Thai Airways' shares have moved erratically recently with foreign and local investors showing enthusiasm for the company when the civilian government seemed to have the upper hand and pessimism when the air force appeared to be winning. Last week, Thai Airways closed at baht 60.5 ($2.40), just above its initial public offering price.

The finance ministry holds 93 per cent of the shares - only 7 per cent have so far been sold to the public - but has found it difficult to impose the government's will on the recalcitrant air force officers who have made the company their fiefdom.

Dickson Concepts plans venture in Shanghai

By Simon Davies in Hong Kong

DICKSON Concepts, the Hong Kong based luxury wholesaler and retailer, is to invest in a US$24m project to set up "the most luxurious and up-market shopping arcade in Shanghai".

Dickson has formed a joint venture with the state-owned Jin Jiang group to refurbish a centrally located property.

It will encompass the elegant style for which the city was famed before the second world war.

The J. J. Dickson shopping arcade will have 100,000 sq ft of retail space, with Dickson Concepts using the ground floor for setting up international brand name boutiques, including its own.

The Chinese partner will provide land and property valued at $10m, while Dickson will contribute $10m for the refurbishment. A further $4m will be jointly injected for working capital.

Dickson has also signed an agreement to form an 80 per cent owned joint venture in Guangzhou, for manufacturing, wholesaling and retailing products for its brand names such as Charles Jourdan, Guy Laroche and S. T. Dupont.

Dickson announced in June that it intended to become the pioneer of brand name development in China.

Matsushita and Sony in accord

By Emiko Terazono in Tokyo

MATSUSHITA Electric Industrial, Japan's largest consumer electronics company, and Sony, which brought the world the Walkman, have agreed to simplify licensing procedures for their next-generation digital audio products.

Matsushita will allow patents it holds of Sony's proposed Mini Disc, a miniaturised version of the compact disc, to be offered by Sony.

In turn, Sony said its patents held on the Digital Compact Cassette (DCC) will be available for licence to third parties through Matsushita.

The move follows an agreement reached last October between Sony and Philips of the Netherlands, whereby Philips agreed to help licensing procedures for the Mini Disc, and Sony in return agreed to sell tapes for DCC through its music subsidiaries.

Matsushita said while there were no immediate plans to produce each other's products, the move would simplify licensing procedures for audio hardware makers looking to manufacture either product.

Patents which Matsushita currently holds on the Mini Disc, include technology which searches for tunes, and disc technology. Sony holds patents on error correction technology for the DCC.

Matsushita expects to introduce the DCC to Japanese consumers later this month, and start marketing in Europe in the autumn. Sony said the Mini Disc would be available to consumers in November.

Countrywide Bank takeover near

By Terry Hall in Wellington

THE BANK of Scotland's takeover of Countrywide Bank, the fifth largest bank in New Zealand, moved a step nearer after two institutions, which had opposed the bid, reluctantly sold out last week. But the largest outside shareholder said it would mount a legal challenge.

Both Norwich Union and CML, which between them hold 3 per cent of Countrywide's capital, agreed to sell, apparently clearing the way for the Scottish bank's offer to become final.

On their acceptance the Bank of Scotland said it had 91.2 per cent of Countrywide's capital and intended to acquire the rest compulsorily.

However, the National Mutual, the pension fund, with 5 per cent of Countrywide, said it would challenge the takeover.

A spokesman said it would not sell because the offer was "too mean". It was disappointing that all the institutions fighting the bid had not stuck together.

A Norwich Union spokesman criticised the way the Bank of Scotland had treated minority holders. In deciding to sell, he had weighed up the risks of remaining a minority shareholder, and the small likelihood of the Scottish bank increasing its NZ$2.05 a share offer. He said there had been unnecessarily harsh treatments in the company's accounts, and that these and other actions showed the substantial level of control the Bank of Scotland used within the company.

The CML, which held out until well after the Stock Exchange had closed, said it was reluctantly accepting. "There comes a time when you feel you've made the best possible fight for minorities, and it is time to get on to the next thing," a spokesman stated.

The Bank of Scotland said it intends to compulsorily acquire the remaining 8.8 per cent of the capital.

● Companies listed on the New Zealand Stock Exchange will face tougher reporting standards from October 1, to bring them into line with Australian regulations.

The stock exchange said that the new rules would ensure that more comprehensive financial reporting on public companies was available to investors.

Under the changed reporting format for half and full-year results, companies must provide: a full statement of assets, liabilities and shareholders' equity; a full statement of cash flows; full details of equity accounted associated companies and other material interests; and reports for industry and geographical segments.

Previously, only stocks listed on both the Australian and New Zealand exchanges had to provide such information for both reporting periods.

JAPANESE BONDS

Pessimism on economic recovery grows

WHILE hopes of an imminent cut in Japan's official discount rate were dashed by the Japanese government's package to stimulate growth, bond market participants remain bullish after continuing weakness in the country's economy.

Last month's announcement of a Y10,700bn fiscal spending package brought a temporary halt to the bond market rally, and the yield on the 10-year benchmark rose 15 basis points. However, the yield has since returned to the 4.9 per cent level, as pessimism towards an early economic recovery is growing.

Downward earnings revisions by leading companies are reflecting underlying weakness. Nissan Motor said it would post its first loss since 1946, and suspended dividend payments for the interim period. NEC and Toshiba, the electronics makers, also cut forecasts for the current year to next March due to poor demand.

Corporate profits have been hit by the unexpected slump in economic activity. Although the Japanese government initially expected firm consumer spending to support the economy, consumer confidence has deteriorated during the past few months. Nomura Research Institute, the research arm of Nomura Securities, last week forecast a bigger than expected fall of 17.9 per cent in company profits for this year.

Source: Datastream

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Although the government has forecast that the fiscal package would boost economic growth by 2.3 per cent during the next 12 months, NRI said the announcement of the package had been delayed, and the effects of public works spending would not be felt until next fiscal year.

For the bond market, additional spending is likely to mean financing through additional issuance of bonds. Although details of the financing remain to be seen, the government last week increased the amount of bonds auctioned from the usual Y800bn to Y1,000bn.

Although an imminent credit easing has become unlikely due to the package, anticipation towards a cut in the official discount rate within this year is growing. "The consensus seems to be a cut sometime in November or December," says Mr Robert Feldman, economist at Salomon Brothers in Tokyo.

In addition to hopes of monetary easing, investors have held on to their bond holdings due to the lack of attractive investments elsewhere. Although the size of the fiscal package and the surge in the stock market discouraged some market participants, the cash bond market has remained relatively stable. Instead, volatile movements were seen in the bond futures markets. "Investors were heavily selling in the futures market to hedge their cash positions," explains Mr Marshall Gittler, analyst at Merrill Lynch in Tokyo.

Meanwhile, the government bond market has seen a change in its 10-year benchmark. On August 27, the No 129 bond, which only had some eight years until maturity, was replaced by the No 145 bond.

For the coming months, bond yields are expected to remain firm due to dim prospects for the economy. This week, Bank of Japan will announce its *tankan* – quarterly survey of business sentiment – which is expected to indicate a further decline in confidence among corporations.

However, the upside on bond prices seems limited, and a sharp jump is not foreseen. Mr Feldman at Salomon Brothers predicts that the yield on the No 145 will rise to 4.75 per cent during the next few months.

Emiko Terazono

Three join Yangpu project

By Simon Davies

KUMAGAI GUMI (Hong Kong) has signed up Citic, the Bank of China and Mr Li Ka-shing's Cheung Kong group, among its partners for the HK$18bn (US$2.33bn) development of the Yangpu free port zone in Hainan Island, China.

Kumagai, the Hong Kong listed arm of the Japanese construction company, was earlier this year awarded the development rights for Yangpu, which will be a 30 km special concession area within the Special Economic Zone of Hainan.

Kumagai has formed a development company in which it owns a 30 per cent stake and Cheung Kong has 10 per cent. The company has an initial share capital of HK$1bn.

The Chinese partners, which include three banks, will own 55 per cent of the project which is to be completed over 15 years. The development company will control the infra-structure and land sales within the area.

Volvo loan to extend debt profile

By Sara Webb

VOLVO, the Swedish car group, is launching a $600m syndicated loan which will replace an existing facility and help to extend its debt maturity profile.

The new credit consists of three separate tranches: a $150m 364-day revolving credit; a $200m five-year revolving credit; and a $250m five-year term loan.

The short-term revolving credit has a commitment fee of 12.5 basis points and a margin of 37.5 basis points over the London interbank offered rate.

The five-year revolving credit has a commitment fee of 22.5 basis points and a margin of 45 basis points over Libor.

The five-year term loan also has a margin of 45 basis points over Libor and front-end fees ranging from 7.5 to 12.5 basis points.

Credit Suisse First Boston, the arranger of the transaction, said the credit facilities are intended to replace a $700m credit facility which was set up in 1988 and which is due to expire shortly.

INTERNATIONAL BONDS

UK decision excites foreign interest

THE UK Treasury's decision to borrow Ecu10bn in foreign currencies, announced last week, represents an unusually bold step to support a currency by tapping the international capital markets. While other countries have indirectly supported their domestic currencies by borrowing abroad, rarely has that intention been so directly expressed.

Further, the move runs counter to the current trend among most of the world's leading economic powers. Most G10 countries have reduced their dependency on foreign currency borrowings in recent years. On the other hand, smaller sovereign borrowers, such as Belgium and Finland, and emerging economies like Mexico, have tended to be more active in foreign bond markets, often because their domestic markets are still too small or too restricted to meet their financing needs.

However, in the wake of the UK Treasury move last Thursday, investment bankers called a number of sovereign borrowers in an attempt to whip up interest in similar projects.

Top of the list of potential copycat borrowers is Italy, which had to lift interest rates again on Friday. The Italians have been active borrowers in the international capital markets but have never raised D-Marks.

Even though they have been keen to tap the D-Mark sector for some time, the Italian treasury would only issue under Italian law. Until August, Bundesbank rules required all borrowers to issue D-Marks under German law, effectively barring the Italians from the market. The scrapping of that requirement on August 1, as part of a series of rule changes by the Bundesbank, effectively opens the way for the Italians to borrow in D-Marks.

Bankers said that some Scandinavian countries might also consider borrowing in D-Marks to support their currencies. However, for Sweden, this would mean a reversal of a decision to avoid foreign bond markets, as part of its debt reduction programme.

Finland, which devalued the markka earlier this year, expects to raise half its planned $12bn funding programme this year in foreign currencies. Finland launched a DM2bn bond issue earlier this year, though not with the explicit aim of bolstering its currency.

But, with the exception of Italy (which had gross debt of $1,167bn at the end of 1991, more than 100 per cent of its GDP), most G7 countries are expected to stay away from foreign bond markets.

Countries like Germany, Japan, and the US, with large internationally-traded government bond markets, have little incentive to change this policy. Apart from its politically-motivated Ecu bond programme, France has also stuck to its domestic currency. Canada last tapped the Eurobond market in 1986, leaving room for its provinces to raise funds overseas to meet their own heavy financing needs.

The UK Treasury is also unusual in choosing to borrow directly from banks, by arranging a syndicated facility. "Most sovereign borrowers now only use banks for short-term funding, although there are plenty of private bilateral agreements," one banker said. Syndicated loans have in recent years proved substantially more expensive for sovereign borrowers than the bond markets.

For the Treasury, however, a syndicated facility, through which the UK is raising DM10bn this month, was needed to provide flexibility and speed of execution, as well as to accommodate the size of the transaction. The D-Mark financing underlines the government's commitment to underpinning the pound and the sale of the D-Mark proceeds for sterling will provide tangible support in the foreign exchange market. A bond offering would have had a fixed maturity date, and foreign exchange dealers would have known when the Bank of England needed to buy D-Marks to repay the debt. Borrowings under the three-year facility can be rolled-over and refinanced at various stages throughout the three-year life of the facility.

Tracy Corrigan

The UK Treasury's foreign currency borrowing operation has an interesting precedent in the 1970s in the US, where foreign currency bonds designed to help defend the dollar were dubbed "Carter bonds".

Between October 1978 and January 1980, the US issued $6.4bn of Carter bonds, of which $5.2bn were denominated in D-Marks and $1.2bn in Swiss francs, sold only to legal residents of Germany and Switzerland respectively.

Can any lessons be drawn from the US experience? The dollar did rally, but only temporarily and not necessarily as a result of the Carter bond programme: during the summer of 1978, the discount rate was lifted several times in conjunction with the Carter package.

Even then, most economists believe it was the imposition of tighter monetary policy which finally helped support the dollar.

"(Carter Bonds) do not serve as a model because the US has never been in the position of the tail wagging the dog – where currency strength is the single most important factor, superceding the domestic economy," said Mr George Magnus, chief international economist at SG Warburg.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
STERLING							
National Provincial(a)‡†	150	1997	5	(a)	100	UBS Philips & Drew	-
US DOLLARS							
Hokuriku Electric Power†	200	1997	5	6.125	101.60	Goldman Sachs Intl.	5.746
A/S Eksportfinans(g)‡†	100	2002	10	(g)	100	Credit Suisse	-
Dresdner Bank(j)‡†	50	2002	10	(j)	100	Dresdner Bank	-
Toronto Dominion Bank(l)‡†	150	2002	10	(l)	99.95	Morgan Stanley	-
Bankers Trust(m)‡†	150	2002	10	(m)	100	Lehman Brothers Intl.	-
Finish Export Credit(n)‡†	100	2002	10	(n)	100	Credit Suisse	-
Rhythm Watch♦†	50	1996	4	2.25	100	Nikko Europe	2.25
Cie Bancaire(o)†	100	2002	10	(o)	100	Credit Suisse	-
Abdij Nationaal(p)‡†	75	2002	10	(p)	100	Credit Suisse	-
ECUs							
Shinagawa Fuel Co.(f)♦†	70	1996	4	6	100	Daiwa Europe	6.0
CANADIAN DOLLARS							
Export Import Bank Japan†	350	2002	10	7.75	101.22	SBC	7.571
Toyota Credit Canada†	150	1998	6	6⅞	101.209	Merrill Lynch Intl.	6.592
D-MARKS							
Bayerische LFA†	100	1995	3	8.75	101.40	BHF Bank	8.205
AUSTRALIAN DOLLARS							
State Bank of Sth Australia†	125	2002	10	9½	101	Hambros Bank	9.342
State bk. of N.S. Wales(k)†	75	2002	10	9	100	Deutsche Bank	9.0
YEN							
Japan Development Bank†	100bn	1999	7	5	99.5	Nomura Intl.	5.087
Sapporo Breweries(b)‡†	10bn	1999	7	(b)	100	Yamaichi Intl. Europe	-
Sapporo Breweries(c)‡†	10bn	1997	5	(c)	100.10	Nikko Europe	-
Japan Airlines†	20bn	1999	7	5.5	101.75	Nikko Europe	5.2
Japan Airlines†	10bn	2002	10	5.7	101.75	Yamaichi Intl. Europe	5.469
Sumitomo Chemical(d)‡†	15bn	1997	5	(d)	100.25	Nomura Intl.	-
Sumitomo Chemical†	10bn	1999	7	5.6	101.75	Daiwa Europe	5.299
Hankyu Corp.†	20bn	2002	10	5.85	101.60	Daiwa Europe	5.61
Hankyu Corp(e)‡†	10bn	1996	4	(e)	100.15	Daiwa Europe	-
SWISS FRANCS							
SNCI★★†	150	2000	8	7.25	101.62	UBS	6.978
Toyo Shutter(h)★★♦†	100	1996	4	3.625	100	Credit Suisse	3.625
Republic of Ireland★★†	100	2002	10	7.25	101.5	SBC	7.036
GUILDERS							
Rabobank Nederland†	400	1997	5	8.5	100.55	Rabobank Nederland	8.356
DANISH KRONER							
Nordic Investment Bank†	300	1994	2	10.625	101.25	Den Danske Bank	9.905
LUXEMBOURG FRANCS							
Credisuez(i)†	1.3bn	2000	8	9.375	101.875	BGL	9.036
PIBA★★†	500	1995	3	9.75	102.20	BGL	8.908
Cregem Intl. Bank★★†	400	1994	2	8.875	102.25	Cregem Intl. Bank	8.604

★★Private placement. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Coupon pays ⅛% above 3-month Libor and is payable quarterly. b) Coupon pays 30bp above 6-month Libor and is payable semi-annually. c) Coupon pays 28bp above 3-month Libor and is payable quarterly. d) Coupon pays 20bp above 3-month Libor and is payable quarterly. e) Coupon pays 30bp above 3-month Libor and is payable quarterly. f) Exercise premium fixed at 2.85%. g) Coupon pays ⅛% below 6-month Libor. Minimum 5⅛%, maximum 10%. h) Exercise premium fixed at 2.5%. i) Subordinated issue. j) Coupon Pays ⅛% below 3-month Libor. Minimum 6%, maximum 10%. Subordinated issue fungible with existing $250m issue. k) Fungible with existing A$225m issue. l) Coupon pays ⅛% below 6-month Libor. Subordinated issue. Minimum interest rate 5%, maximum 10%. Non-callable. m) Coupon pays ⅛% below 6-month Libor and is payable semi annually. Minimum 5⅛%, maximum 10%. n) Coupon pays ⅛% below 6-month Libor. Maximum interest rate 10%, minimum 5⅛%. o) Coupon pays ⅛% below 6-month Libor. Minimum 5¼%, maximum 10%. p) Coupon pays ⅛% below 6-month Libor and is payable semi-annually. Subordinated issue. Maximum interest rate 10%, minimum 5⅛%. Note: Yields calculated on ISMA basis.

Anthony Harris

Europe stays out of step

THE European "triumphs" of the past few days will look very odd in the history books. First the Bank of England reminded us that it still has some of its old, low cunning, got out the banners and the brass band, and went long on sterling. The markets cheered.

This gesture is meaningless in economic or even in financial terms. The effect of the official currency borrowing is exactly the same as the effect of using our own reserves, or even of leaving the Germans to use theirs, as they are obliged to do under the EMS arrangements: it saves interest, but will lose on capital if sterling is revalued. However, it knew its markets: they were longing for anything, even an empty gesture, to celebrate. This might have made a nice curtain-raiser for the finance ministers' meeting in Bath had not the US produced some simply dreadful employment figures, and cut dollar interest rates still further.

But the ministers could not allow this reminder of reality to disturb their agenda. Despite a possible triple-dip across the Atlantic, and the EC's sharp downward revision of its own modest growth forecast, the ministers agreed to make things worse. They accepted an unchanged German policy of sado-monetarism as a concession, and agreed to go on trying to deflate any "weaker" economy which still shows some signs of life. Not one word about growth. It could almost be a plot to secure a French Non, and save a lot of ministers from having to eat a lot of words.

This collective obsession with the problems of the 1980s would be easier to understand if it were general; it is hard to break out of a world consensus. The fact is, though, that the consensus has moved, and the change will in due course make European policy intolerable even to its authors. The Americans have for several years pursued a determined policy of devaluation – and this remains quite explicit. After the rate cut on Friday, a Fed governor was on hand to explain to the Press that this would further weaken the dollar, and so help exports.

Competitive devaluation was the standard slump remedy of the 1930s. In those days it was a zero-sum game; now it is unilateral, and moderately effective, because nobody else is joining in. It has not yet produced a strong US recovery, partly because European demand is falling even faster than the US can gain competitiveness; the US machine tool industry, for example, recently reported a 30 per cent fall in export demand, although home orders are rising.

But the US still enjoys some growth, despite flat incomes, swingeing defence cuts, and a debt crisis. What is more, US inflation is still falling. The US authorities seem to remember what they learned in first-year economics: that in a recession, devaluation does indeed change the terms of trade. This truth is denied to our own gurus, still guided by models full of data from a different age. They should go back to school.

A different example is being set on the other side of the world: the Japanese have rediscovered Keynes. The Y10,700bn Comprehensive Economic Measures announced the week before last are the real thing, much more ambitious than expected. This is an emergency package designed above all, admittedly, to save the banking system; but it is also liable to transform the economy.

For the Japanese Ministry of Finance this marks a U-turn on a truly heroic scale – something which makes the Volcker monetary relaxation of 1982 look cautious and half-hearted. It shows, not for the first time, that the Japanese system can change strategy sharply when required. The US central bankers' conference in Jackson Hole last month, which concentrated on growth strategies, was a straw in the same wind of change, which would soon turn to action if Clinton wins.

Europe, though, is likely to sit this one out, too uncompetitive to share in a US recovery, irrelevant to a Japanese infrastructure programme, and too depressed internally to mount its own recovery. Sooner or later the pfennig will drop. Until then, aggressive international diversification looks like the cautiously responsible policy.

Where's the beef?

Foreign corporations expanding in Europe face truly difficult decisions.

If you want a choice slice of Europe, where will you start looking?

For one, are marketing activities your goal or do you plan to set up manufacturing operations? Then there is the question of acquisition versus building up your own organization from scratch.

And finally, you will be faced with the most difficult yet perhaps most important problem:

Where is the best place in Europe for you to locate?

The EC's Single Market is about to become reality, to be followed later by a single currency and a European central bank. Recently a treaty was signed with the EFTA countries establishing the European Economic Area (EEA) that will unite all of Western Europe – a unified market with 377 million consumers, accounting for 30 % of global GNP and a full 43 % of the world's international trade. Moreover the new democracies of Central and Eastern Europe are busily establishing free market economies and attracting private investment.

Europe is in a state of flux. It is clearly the right time to establish a market foothold – to stake out your claim to a choice slice of the market.

Many attractive official promotional programs have been set up to encourage foreign investment. There are also a number of local companies that might be attractive partners or potential acquisition targets. The problem is to objectively *assess all the opportunities in* order to determine the best fit for your company.

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Advice you can rely on from Dresdner Bank.

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And through our specialized international bank in Luxembourg, Europa Bank AG, we can put together complex packages including various regional European subsidies and EC support programs, thereby satisfying the most demanding of financing requirements.

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Dresdner Bank

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Novel borrowing plan eases pressure

THE gilt-edged market has had an agonising summer, worried sick by the two bugbears of sterling weakness and funding pressure. Last week, the government succeeded in dispelling those fears in one fell swoop: it announced that it would borrow the equivalent of Ecu10bn in D-Marks and a range of other foreign currencies, using the funds to support sterling in the foreign exchange market and to fund government spending.

The borrowing plan consists of a three-year multi-currency revolving credit facility with a group of international banks and a longer-term multi-currency note issue programme. The Treasury said the government would borrow about DM5bn "over the next few days", converting the proceeds into sterling, and that a further DM5bn would be drawn in the same way later this month. The second part of the borrowing operation is due to begin next month when the multi-currency note issue programme comes into play.

The Treasury's plan sent three important signals to the gilt-edged market:

- it emphasised the government's commitment to supporting sterling;
- it removed the threat of an imminent hike in the base rate;
- it cut the equivalent of about £7.3bn from the government's gilt funding programme.

The recent weakness of sterling against the D-Mark has been a source of considerable worry in the gilt-edged market and had left many investors worried about the possibility of a sterling devaluation. In the days before the Treasury made its borrowing announcement, sterling had come close to scraping its DM2.778 floor in the European exchange rate mechanism. By the end of last week, sterling had strengthened to DM2.80.

"The government has removed all doubts in the minds of the foreign exchange market that sterling will be devalued, at least in the near term... As a result, sterling should trade at above DM2.80, at least ahead of the French referendum (on ratification of the Maastricht treaty) and we anticipate a trading range of DM2.80-DM2.85," says Mr Steven Bell, economic adviser to Deutsche Bank Gilts. Mr John Shepperd, economist at S. G. Warburg Securities adds that the Treasury's borrowing plan demonstrates the strength of the government's resolve to avoid a sterling devaluation, regardless of the outcome of the French referendum.

By removing the threat of a devaluation, the government may woo some foreign investors back to the gilt-edged market. Bank of England figures on gilt sales over the last few months show that the bulk of the sales have been to domestic investors. "We've seen heavy selling of gilts by foreign investors recently – they have no problem believing the UK can manage meeting the convergence criteria implied by the Maastricht treaty but they are terrified of a realignment of currencies in the exchange rate mechanism of the EMS," says one fixed income analyst.

By showing the government's determination to support sterling, the borrowing plan also helps to reduce the risk of a base rate rise. The weakness of the lira last Friday meant the Bank of Italy was forced to raise domestic interest rates again, having only recently lowered the discount rate – and clearly Mr Norman Lamont, the UK chancellor, does not want to be put in the embarrassing position of raising UK interest rates in order to defend sterling.

There is still a risk that UK interest rates may be forced upwards if the French vote against the Maastricht treaty and set off another bout of turbulence in the financial markets. But for the moment at least, the borrowing plan buys time for the government – and if France votes in favour, then the prospects for the gilt market should improve as most economists expect Germany to start lowering interest rates next year.

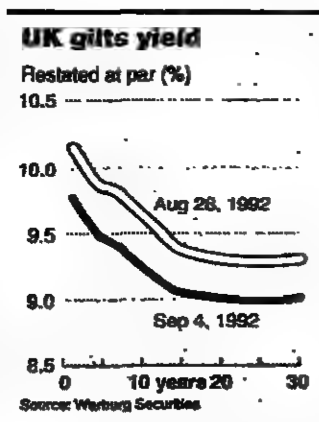
The third way in which the gilt-edged market benefits from the Treasury's novel plan stems from the fact that the financing will be used to fund government spending, significantly reducing the level of funding that the government will need to do in the gilt market. The Ecu10bn is equivalent to about £7.3bn – or roughly three gilt auctions. According to Mr Shepperd, estimated gross gilt sales for 1992/93 have been reduced from £37bn to £29bn as a result: since the Bank of England has already secured about £19bn of funding, this leaves only £10bn to be funded in the rest of the financial year.

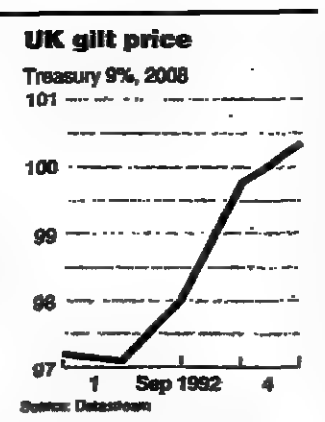
"At only £1.4bn a month, this implies a major deceleration in the pace of funding," says Mr Shepperd. Other economists believe the funding requirement may be even smaller than this. But the important point is that the Bank will be under far less pressure to issue gilts. Over half of the gilt issuance so far this year has been at the long end of the market, and not surprisingly this is the area which has showed the strongest gains on the basis of the lower funding requirement with long-dated gilts jumping up to two points on Thursday after the announcement.

Early on Friday morning, the Bank decided to take advantage of the gilt market's buoyant mood to issue four tranches of existing stock amounting to £750m and covering a range of maturities. One of the tranches – £150m of the 8.75 per cent gilt due 1997 – was exhausted on the same day. The Bank's action was reminiscent of its behaviour at the time of the general election when it seized the opportunity to sell gilts during the night as soon as it became clear that the Conservatives had won another term in office.

Clearly, the Bank will use any favourable opportunity to issue gilts, leading some economists to suggest that even though the government's funding requirement has been reduced by the foreign currency borrowing, the Bank could use the favourable market conditions to bring forward some of the funding for the next financial year.

Sara Webb





> 'The government has removed all doubts in the minds of the foreign exchange market that sterling will be devalued, at least in the near term . . . Sterling should trade at above DM2.80, at least ahead of the French referendum and a range of DM2.80-DM2.85 is anticipated.'

US MONEY AND CREDIT

Unemployment data spur rally

THE latest US jobs data could not have been worse. Against expectations of a rise in August of about 150,000, employment actually fell by 183,000 – excluding seasonal distortions caused by federal jobs programmes.

Non-farm employment was down by 83,000 and the weakness of the US economy proved to be an across-the-board affair, with jobs being lost as speedily in the manufacturing industry as in the retailing sector. Factory employment is now at the lowest level since 1983.

For President Bush, the latest unemployment numbers offered more bad news on the electoral front. For challenger Bill Clinton, another opportunity was served up for attacks on the Bush Administration's economic record.

Back in the real world, the Federal Reserve, having last cut the discount rate last July, found its options limited due to the weakness of the US dollar, now the bargain basement currency of the world foreign exchange market.

While the White House struggled to put a favourable spin on the penultimate set of jobs data to be released before election day, the Fed injected money into the banking system and signalled a quarter point reduction in the target range of the Fed funds rate, from 3¼ to 3 per cent.

The jobs data and limited Fed action spurred a sharp rally in the Treasury bond market on Friday. The price of the 30-year benchmark Treasury issue gained nearly a full point on the day and the yield fell to 7.28 per cent, a level seen briefly last month, but more recognisable as the yield on offer more than five years ago.

Mr Alan Greenspan, Fed chairman, was meanwhile criticised harshly by some economists who feel the economy needs shock treatment rather than more gradualism in monetary policy. Mr Robert Brusca, chief economist at Nikko Securities in New York, said the dollar should be damned and the Fed should act to cut interest rates still further.

"The true culprit here is the Fed and the blame must fall on its leader, Alan Greenspan," said Mr Brusca. "The Fed has been behind in providing for the economy's needs since before the recession started. Here we are, 25 months after the recession began, with nothing that looks remotely like even the worst post-war recovery we have seen – and with a currency crisis to boot. The Fed has bungled away all its flexibility to reduce interest rates, and now, with little firepower left, the dollar is sinking – despite low inflation."

At Donaldson, Lufkin & Jenrette, sentiment was less vitriolic. The Fed, said DLJ, had no choice but to react to the disastrous jobs data by easing monetary policy. Whether or not the absence of a discount rate cut was dictated by foreign exchange considerations or mere logistical timing considerations remained to be seen. "We suspect the latter," said DLJ.

The bond market may be happy at the effect of more bad economic news on prices. But in broader terms, the outlook for the US economy seems gloomier than ever. Nor are September jobs figures, to be released in early October, likely to look improved. In fact they could be even worse since they will include many who were thrown out of work in Florida by Hurricane Andrew.

The bottom line, both for the politicians and the economy itself, may be that even much lower rates are not sufficient to stimulate spending by those many terrified and debt-burdened American consumers and companies who are struggling through the present deflationary environment. The genuinely structural – rather than cyclical – nature of America's economic woes is finally becoming apparent.

Alan Friedman

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn – current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on September 4

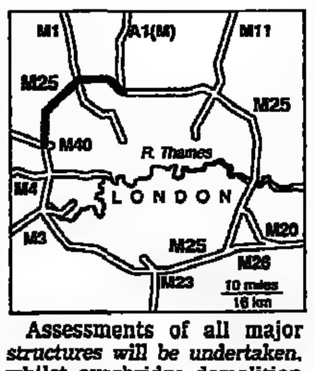
BUILDING CONTRACTS

Upgrading M25 motorway

ACER CONSULTANTS, based at Guildford in Surrey, has been awarded a £160m contract by the Department of Transport to undertake the Stage 3 design and supervision of the M25 motorway improvements between Junction 16 (M40) and Junction 23 (South Mimms).

The contract, which involves project management, engineering design, environmental studies, and traffic and economic appraisals, will be completed totally in-house.

Following work on the M4 widening between Junctions 4b and 5, which has been brought to tender stage, Acer will now undertake the widening of the M25 to dual four-lane carriageway throughout, with narrow lanes at select locations.



Assessments of all major structures will be undertaken, whilst overbridge demolition will be restricted to a practical minimum.

Improvement of traffic movements between Junction 21 and Junction 21a will be investigated as part of the commission, with the provision of direct links between the M1 and the A405 favoured.

TecnEcon, economic and transport consultants and an associate member of the Acer Group, will carry out all traffic and economic studies.

The project is about 36 kilometres long and will be divided into two sections at the design stage which will eventually form two contracts at the construction stage. Priority will be given to the section from Junction 16 to 19, followed by Junction 19 to 23.

The design for the first section is scheduled to take some 18 months with a similar period identified for the second section. Supervision contracts are scheduled to take two years.

Teacher training

JOHN SISK & SON has won contracts worth £11m. Heading the list is a £4.1m design and build project to construct a school of teaching studies at the North London Polytechnic.

Other work includes a £3.5m fit-out at the shopping mall at Centre West in Hammersmith and a £1.2m office fit-out for the RNIB at Peterborough.

Hospital plan

R. DURTNELL & SONS has been awarded new orders worth £4.3m. In Haywards Heath, the company is working for Prodescon on a fast-track contract for a £1m 60-bed hospital for Independant Health. A £600,000 contract has been received for the refurbishment of Hounslow Manor School in the London Borough of Hounslow.

In Kent, a £600,000 three-storey complex of sheltered housing units will be built for the Shaftesbury Housing Association.

Headquarters

POLARSTONE UK has won a £1.5m contract for the internal and external cladding of Sony UK's headquarters building at Brooklands Business Park, being developed by Trafalgar House at Weybridge, Surrey.

Rail terminal

FONDEDILE FOUNDATIONS has been awarded contracts worth over £680,000. The largest is at Waterloo International Terminal where work involves piling and tie bars.

Hockey pitch

AMEY SPORT TEC, part of Amey Group, has a £360,000 three-month contract for a floodlit synthetic grass water-based hockey pitch at Chiswick for Hounslow Hockey Club.

Edinburgh conference centre

GA MANAGEMENT, part of the Scottish-based GA Holdings, has been awarded a £33m contract by the Edinburgh International Conference Centre (EICC) to manage the design and construction of the city's international conference centre.

EICC, which is a joint venture between Edinburgh District Council, Lothian and Edinburgh Enterprise and Lothian Regional Council, has commissioned a 1,200-seat showcase conference centre situated between Lothian Road and Morrison Street. It will be linked to a new £250m international financial centre.

Clearance and land engineering work on the site is well advanced and work has also started on the realignment of the Western Approach Road in preparation for further development of the 10-acre site.

£34.5m water industry work for Birse

BIRSE CONSTRUCTION has been awarded six contracts valued at £34.5m by five of the major water companies.

Two of the contracts have been placed on a design and construction basis and three include substantial mechanical and electrical elements, with Birse Water Engineering providing technical support to the construction company.

The largest contract, worth about £11m, is for North West Water and involves constructing a water treatment works at Lancaster. Two other contracts for Yorkshire Water worth £8.5m include a water treatment works near Sheffield and a service reservoir near Leeds.

The other three contracts have resulted from the water companies' drive to improve wastewater treatment facilities near bathing beaches. Birse has secured contracts from South West Water and Welsh Water at St Austell (£9.5m) and Abergele (£2m) respectively. The third contract comprises the installation of the mechanical and electrical plant and equipment for a treatment works at Cleethorpes for Anglian Water (£3.5m).

Heathrow Airport project

JT DESIGN BUILD has been awarded an £8.8m contract to design and build a 300 metre long passenger pier and a 300 metre long link bridge at Terminal 4, Heathrow Airport.

The structure will connect Terminal 4 with four aircraft stands. The contract also includes a departure lounge, a cafe, toilets, staff accommodation, plantrooms and stores. Both link and pier structures will be a combination of precast concrete and steel frames with precast concrete flooring.

The building will be clad internally and externally with profiled steel sheeting with high levels of insulation to achieve both thermal and acoustic insulation. Internally, passenger conveyors will be provided at both arrivals and departures levels.

The departures level has a barrel vaulted ceiling through its whole length with a continuous curved bulkhead concealing services.

To be completed on a fast-track 46-week programme, the structures will be built alongside a number of passenger facilities that will remain operational.

European motorway

MOTT MACDONALD has completed a study forecasting traffic and revenue levels for a section of proposed motorway between the German border and Pilsen in Czechoslovakia. This is part of the E50 Prague to Nuremburg route – one of the most important road links between the EC and the old Eastern Bloc countries.

The 85km long dual two lane D5 motorway section will be the first in the country to be built by the private sector under a concession agreement.

CONTRACTS & TENDERS

INVITATION FOR BIDS

Loan No:	2602.TU
File:	DB.TGTY.6
Order No:	106-Sept.TM/9206
Date of Insurance:	7.9.92
Bid Submission Date:	27.10.92

1. The TURKISH ELECTRICITY AUTHORITY, hereinafter referred to as TEK, has applied for a loan from the International Bank for Reconstruction and Development, hereinafter referred to as the WORLD BANK in various currencies equivalent to USD 140,000,000 millions towards the cost of Power System Operating Assistance Loan (TU-2602 PSOP) and intends to apply a portion of the proceeds of this loan to eligible payments under the Contract for which this Invitation for Bids if issued. payment by the World Bank will be subject in all respects to the terms and conditions of the loan agreement. No party other than TEK shall derive any rights from the loan agreement or have any claim to the loan proceeds.

2. The TURKISH ELECTRICITY AUTHORITY now invites sealed bids from eligible Bidders for supply of 29 each 154 kV, 100, 50 and 25 MVA power transformers.

3. The Bidders are free to quote on single or several items of the Bill of Goods, as well as the whole of them. Items shall be evaluated separately. Those Bidders who offer to supply more than one item shall assure the validity of their delivery schedule in the case that they are awarded for several items.

4. Interested eligible bidders may obtain further information from and inspect the Bidding Documents at the office of:
TURKISH ELECTRICITY AUTHORITY
General Management
Commercial Affairs Department
Inönü Bulvari No. 27 Kat : 1
Bahçelievler Son Durak
ANKARA/TÜRKIYE
Telex : 42245 tek tr

5. A complete set of Bidding Documents may be obtained by any interested eligible Bidder on the submission of a written application to the above office and upon payment of a non-refundable fee of 700 USD or 5,000,000 TRL at the following address:
TURKISH ELECTRICITY AUTHORITY
General Management
Department of Finance
Inönü Bulvari No. 27 Kat : 4
Bahçelievler Son Durak
ANKARA/TÜRKIYE
Those Bids submitted by the Bidders who did not purchase the Bidding Documents shall be rejected.

6. All bids must be accompanied by a bid security in an acceptable form of not less than 3% (three percent) of the bid price and must be delivered to the above office on or before 12:00 hours on 27-10-1992.

7. Bids will be opened in the presence of those Bidders' representatives who choose to attend at 14:00 hour on 27-10-1992 at the office:
TURKISH ELECTRICITY AUTHORITY
General Management
Procurement Commission
Inönü Bulvari No. 27 Ground Floor Block A
Bahçelievler Son Durak
ANKARA/TÜRKIYE

ARUN DISTRICT COUNCIL TENDERS FOR BANKING SERVICES

Arun District Council invite applications from banks who wish to tender to provide banking services for the Authority.

The service required will be the full range of banking facilities. Counter and night safe facilities will be required in Littlehampton.

Applicants wishing to receive a specification and tender documents should apply in writing to:-

Director of Corporate Resources
Arun District Council
Arun Civic Centre
Maltravers Road
Littlehampton
West Sussex BN17 5LF
Great Britain

Tender documents should be returned to the above address by noon on 30th October 1992.

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
FRIARY HOLDINGS LIMITED

Registered No: 846393. Trading Name: Friary Developments. Nature of Business: Property Developers. Trade Classification: 23. Date of appointment of joint administrative receivers: 25th August 1992. Name of person appointing the joint administrative receivers: Barclays Bank PLC
DAVID ROBERT WILTON and IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office Holder Nos 5708 and 6682) Cork Gully, 43 Temple Row, Birmingham, B2 5JT

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
FRIARY JOINERY & INTERIORS LTD

Registered No:2378341. Nature of Business: Manufacture and Fixture of Joinery Trade Classification: 09. Date of appointment of joint administrative receivers: 25th August 1992. Name of person appointing the joint administrative receivers: Barclays Bank PLC, DAVID R WILTON and IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office Holder Nos 5708 and 6682)Cork Gully, 43 Temple Row, Birmingham, B2 5JT

LEGAL NOTICES

Advertisement of creditors' meeting under Section 48(2) of the Insolvency Act 1986
Company No 1055407
Registered in England and Wales

C & S CONTROLS LIMITED

Notice is hereby given, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at, Melrose House, 42 Dingwall Road, Croydon, Surrey CR0 2NE on 17 September 1992 at 10.30 am for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act. Creditors are only entitled to vote if:
(a) they have delivered to me at the address shown above, no later than noon on 16 September 1992 written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and (b) there has been lodged with me any proxy which the creditor intends to be used on his or her behalf. Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Dated: 1st September 1992
N J Vooght, Joint Administrative Receiver

IN THE HIGH COURT OF JUSTICE
No 002501 of 1992
CHANCERY DIVISION
MR JUSTICE MUMMERY
IN THE MATTER OF BOMBARDIER UK LTD
- AND -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE is hereby given that the Order of the High Court of Justice Chancery Division dated the 27th July 1992 confirming the reduction of the share capital of the above named Company from £200,000,000 to £107,420,000 was registered by the Registrar of Companies on 3rd September 1992. DATED 3rd September 1992
Slaughter and May (GPB/FWN/RLH)
35 Basinghall Street,London EC2V 5DB
Solicitors for the said Company

Notice of Appointment of Joint Administrative Receivers
FRIARY CONSTRUCTION CO LTD
Registered No:2378235. Nature of Business: Building and Civil Engineering Contractors. Trade Classification: 23. Date of appointment of joint administrative receivers: 25th August 1992. Name of person appointing the joint administrative receivers: Barclays Bank PLC, DAVID R WILTON and IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office Holder Nos 5708 and 6682)Cork Gully, 43 Temple Row, Birmingham, B2 5JT

CONTRACTS & TENDERS

REPUBLIC OF TURKEY
MINISTRY OF TRANSPORT AND COMMUNICATIONS

ANNOUNCEMENT FOR THE TIME EXTENSION OF THE TENDER APPLICATIONS

Republic of Turkey, Ministry of Transport and Communications, General Directorate of Railways, Harbours and Airports Construction announces that the Consulting, Engineering and Supervision services will be tendered for Ankara-Istanbul High Speed Railway extending to a new Istanbul Bosphorus Crossing with CREDIT, the conditions of which will be subject to the approval of the Republic of Turkey, Undersecretariat of Treasury and Foreign Trade.

The subject of the tender comprizes total Project Design and all required Consulting, Engineering and Supervision Services of the electrified, signalized, high standard, double track railway with rapid train system, running over the axis Ankara-Sincan-Çayirhan-Arifiye and Istanbul Bosphorus Crossing which reaches an approximate length of 430 km.

Since the companies will be prequalified depending on their international experience, they are expected, in form of joint ventures/consortia, to forward necessary documents (in Turkish and English) showing their experience on similar work, reference lists, credit proposals approved by the related bank or institution and apply for the prequalification not later than 1700 hours, Friday 30th October 1992 to the Ministry of Transport and Communications General Directorate of Railways, Harbours and Airports Construction, 91. Sokak Emek-ANKARA

Republic of Turkey, Ministry of Transport and Communications, General Directorate of Railways, Harbours and Airports Construction announces that the Construction of High Speed Railway and Rapid Train System will be tendered for Ankara-Istanbul High Speed Railway extending to a new Istanbul Bosphorus Crossing with CREDIT, the conditions of which will be subject to the approval of the Republic or Turkey, Undersecretariat of Treasury and Foreign Trade.

The subject of the tender comprizes the Construction of the electrified, signalized, high standard, double track railway with rapid train system, running over the axis Ankara-Sincan-Çayirhan-Arifiye and Istanbul Bosphorus Crossing which reaches an approximate length of 430 km.

The application for the Railway Construction and Rapid Train System could optionally be based either on the whole or on parts of the project.

Since the companies will be prequalified depending on their international experience, they are expected, in form of joint ventures/consortia, to forward necessary documents (in Turkish and English) showing their experience on similar works, reference lists, credit proposals approved by the related bank or institution and apply for the prequalification not later than 1700 hours Wednesday 30th December 1992 to the Ministry of Transport and Communications, General Directorate of Railways, Harbours and Airports Construction, 91. Sokak Emek-ANKARA.

WORLD STOCK MARKETS

AUSTRIA

1992 High	Low	September 4	Price Sch
2,890	1,550	Austrian Airlines	1,780
570	354	Creditanstalt Pf	396
3,925	2,300	EA General	2,490
906	651	EVN	743
16,550	9,850	Jungbunzlauer	14,500
1,074	530	OeMV	645
1,650	1,100	Perlmooser Zement	1,131
700	388	Radex Heraklith	423
1,889	1,100	Reininghaus Brau	1,100
308	125	Steyr Daimler	180
456	261	Veitscher Magnesit	317
567	398	Verbund (Br) A	423
5,320	3,050	Wienerberger	3,200
1,200	942	Z-Laenderbank	950

BELGIUM/LUXEMBOURG

1992 High	Low	September 4	Price Frs.
2,250	1,630	AG Group	1,715
3,495	2,630	Ackermans	2,690
6,370	5,320	Almanij	5,600
4,350	3,020	Arbed	3,125
3,535	3,015	BBL	3,190
12,000	11,500	Bank Intl a Lux	11,500
12,400	11,350	Banq Gen Lux Pts	11,800
13,300	9,100	Bekaert	10,875
8,800	6,510	CBR Ciment	7,500
2,375	1,590	CMB	1,750
5,150	4,100	Cobepa	4,300
178	135	Cockerill Priv	135
5,070	4,015	Colruyt	4,315
1,940	1,452	Delhaize Fr Lion	1,500
5,040	4,500	Electrabel	4,735
4,985	4,400	Electrabel AFV1	4,570
2,930	1,975	Electrafina ACT	2,230
3,590	2,490	GBL	2,520
3,520	2,430	GBL AFV 1	2,500
1,480	1,192	GIB Group	1,306
420	242	Gechem	265
6,820	5,910	Generale Banque	6,480
7,150	6,080	Gevaert	6,180
4,290	3,220	Glaverbel	3,530
3,375	2,500	Immobel	2,515
5,020	4,500	Kredietbank	4,570
4,995	4,225	Kredietbank AFV	4,550
6,850	5,400	Mecaniver	5,500
1,500	1,376	Mosane	1,376
13,900	11,700	Pan Holding Lux	11,700
11,758	8,250	Petrofina	8,670
2,640	2,040	Powerfin	2,080
5,000	3,320	Royale Belge	3,600
4,600	3,310	Royale Belge AFV 1	3,430
2,285	1,775	Soc Gen Belge	1,860
2,180	1,760	Soc Gen Belge AFV	1,760
12,225	9,910	Sofina	10,400
1,530	1,298	Solvac	1,320
13,650	11,550	Solvay	11,750
8,700	7,100	Tractebel	7,430
23,500	19,100	UCB	21,625
2,680	1,790	Union Miniere	1,890

DENMARK

1992 High	Low	September 4	Price Kr
760	315	Baltica Holding Reg	350
307	209	Bikuben	215
380	262	Carlsberg A	270
[illegible]	70,000	D/S 1912 A	71,500
925	548	Danisco	685
342	218	Den Danske Bank	229
176	57.50	East Asiatic	61
641	423.94	FLS Ind B	[illegible]
370	267	Great Nordic	272
1,025	799	ISS Intl Serv B	890
365	245	Jyske Bank Reg	250
2,100	1,470	Lauritzen (J) B	1,500
380	190	NKT A/S	193
572	486	Novo Nord B	513
2,120	1,650	Sophus Berend B	1,895
441	310	Superfos	325
980	645	TopDanmark	645
234	122	Unidanmark A	140

FINLAND

1992 High	Low	September 4	Price Mks
79	59	Amer	60.30
69.50	45	Cultor	49.50
19.80	11.80	Enso R	12.20
137	91	Huhtamaki I Free	109
19.80	5.80	KOP	6
445	340	Kone B Free	345
83.50	50	Kymmene	54
75	46	Metra B Free	51.50
74	44	Nokia Pref Free	44
75	17.50	Pohjola B Free	17.50
50	22.60	Repola (Free)	22.60
140	110	Stockmann B	110
14	8.50	Tampella Free	9
19	2.80	Unitas Bk C Free	3.30

FRANCE

1992 High	Low	September 4	Price Frs.
537	372	AGF	398
840	515	Accor	550
819	656	Air Liquide	808
679	536	Alcatel Alsthom	644
1,120	532	Auxil Entrepr	695
1,055	691	Axa	774
895	579	BIC	777
[illegible]			

FRANCE (continued)

1992 High	Low	September 4	Price Frs.
2,825	2,255	Carrefour	2,300
187.90	125	Casino	148.50
848	600	Cetelem	745
1,298	885	Chargeurs	1,138
554	400	Club Mediterranee	409
380	282	Cogifi	320
701	566	Coparex	581
204.90	158.10	C C F	174.50
1,050	690	Cr Fonc France	777
677	482	Cred Lyon (CI)	499
1,179	820	Credit National	867
3,390	2,325	Damart	2,941
458	338	Docks de France	392
382	260	Dollfus Mieg Cie	307
933	710	EBF	800
2,449	2,030	Eaux Cie Genl	2,242
486	341.50	Ecco	407
403.80	301.50	Elf Aquitaine	343.50
289	208	Elf Aquitaine Certs	227.50
1,240	943	Elf Sanofi	1,070
696	545	Eridania B-Say	643
530	450	Eridania B-Say CI	480
494.90	300.50	Essilor Int	400
2,175	1,622	Etex	1,775
1,680	1,112	Eurafrance	1,136
726	542	Euro RSCG	563
165.20	66.15	Euro Disney	82
127.80	95	Finextel	95.50
705	541	Fonc Lyonnaise	585
3,470	2,280	From C et Aur	3,260
448	302	GTM-Entrepose	368
2,225	1,321	Gal. Lafayette	1,980
740	411	Gaumont (Soc N)	450
770	450	Geophysique	690
190	101	Hachette	109.20
552	434	Havas	495.20
367	233.20	Imetal	313.90
1,009	700	Immob de France	750
743	560	Immobanque	570
170	101.10	Immob Phenix	109
480	377	Interbail	384.90
920	600	Intertechnique	625
4,814	3,402	LVMH	3,840
394.90	262	Lafarge Coppee	290
971	716	L'Oreal	966
5,130	3,581	Legrand	4,175
473	260	Legris	266
584	422.80	Lyon Eaux Dumez	522
201	155	Matra	185.90
221	120.50	Michelin B	202.50
198.80	111.10	Moulinex	112
1,277	765	Navigation Mixte	845
134.80	85	Nord Est	120
270	150	Orsan	150
448	272	Paribas	306.70
293	220	Paris Reescompte	240.80
427.80	297.90	Pernod Ricard	427.80
802	562	Peugeot	582
379	260	Pinault	320
635	390.20	Poliet	480
953	671	Printemps (Au)	683
774	540	Promodes	605
650	387	Radiotechn	399.10
6,080	4,520	Redoute	5,730
670	468	Rhone Poulenc CI	614
480	342	Roussel-Uclaf	395
627	534	SILIC	555
2,250	1,575	Sagem	2,050
614	430	Saint Gobain	536
1,406	1,075	Saint Louis	1,191
782	530	Schneider	570
480	332	Seb SA	365
494	360	Sefimeg	399.90
505	351	Simco	403.90
898	583	Skis Rossignol	595
577	421	Soc Generale de Fr	510
1,579	1,127	Sommer-Allibert	1,258
375	252	Spie Batignolles	279
348.90	219.40	Suez (Fin de)	246.90
3,180	2,020	Taittinger	2,125
170	114	Thomson CSF	142.20
277	192.70	Total B	208.40
583	328.50	UAP	379.80
377	202	UFB Locabail	206
595	363.30	Unibail	365
520	379	Union Immob Fr	394
786	550	Valeo	708
293	120.50	Vallourec	148.90
380	211	Worms Cie	235

GERMANY

1992 High	Low	September 4	Price Dm.
234	156	AEG	163
745	492	AG Ind & Verk	498
980	651	Aachen Mch (Reg)	720
2,328	1,630	Allianz AG	1,720
704	527	Altana Ind	583
919	601	Asko	655
730	355	Asko Prf	410
234.30	201.20	BASF	211.70
285	170.40	Badenwerk	264.50
306.80	254	Bayer	270.80
413.50	360	Bayer-Hypo	365
619	477	BMW (Br)	507
438	377	Bayer Vereinsbk	393
815	640	Beiersdorf	660
285	222	Berliner Bank	240
129.80	111.50	Berliner Kraft	119.50
457	378	BHF Bank	390
1,026	770	Bilf & Berger	820
1,095	670	Colonia Konzern	695
611	370	Colonia Konzern Pf	390
274.30	219.60	Commerzbank	220.70

[illegible]

ITALY

[illegible]

NETHERLANDS (continued)

[illegible]

SWEDEN (continued)

[illegible]

SWITZERLAND

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

CANADA

TORONTO

4 pm close September 4

[illegible]

MONTREAL

4 pm close September 4

[illegible]

INDICES

NEW YORK DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TRADING ACTIVITY

[illegible]

CANADA TORONTO

[illegible]

TOKYO - Most Active Stocks

Friday, September 4, 1992

[illegible]

FINANCIAL TIMES SURVEY

REINSURANCE

Monday September 7 1992

Reinsurers meet in Monte Carlo this week with the damage caused by Hurricane Andrew in America still fresh in their minds. **Richard Lapper** looks at an industry that is struggling to recover after several years of turmoil

Sailing into calmer seas

ORDER OF A sort appears to be returning to the world's reinsurance markets after several years of turmoil. Between 1987 and 1991, fierce rate competition, over-capacity and a sharp increase in the number and cost of catastrophes combined to depress the profits of larger companies and pushed many smaller players out of business.

At this week's annual rendezvous in Monte Carlo, therefore, reinsurers – their minds freshly concentrated by the damage wreaked by hurricane Andrew in the southern US last month – are certain to be spelling out the same message to reinsurance buyers: premium rates must be set at levels that take into account the level of risk.

That is likely to mean a further hardening in the market when reinsurance buyers renew their annual policies towards the end of this year.

The bargaining will be simplest in the proportional market, in which giant companies such as Swiss Re and Germany's Munich Re reinsure an agreed percentage of the potential liabilities in exchange for the same proportion of the original premium, less a commission payment.

In the wake of poor results in 1990 and 1991, reinsurers may continue to press direct insurers to increase rates and will seek reductions in the commission paid to insurers to offset the costs of acquiring the original business.

But it is in the non-proportional market, where reinsurers obtain cover providing protection above a set level of claims, that the impact of the recent losses is being felt most strongly.

After nearly a decade in which the brokers who buy reinsurance on behalf of insurance companies have held the upper hand in setting rates, terms and conditions, power is returning to the biggest and best capitalised reinsurance companies in Europe and North America, including Munich Re, and Swiss Re.

Mr Patrick Peugot, chief executive of SCOR, France's biggest reinsurer and now the seventh biggest reinsurer in the world, says that the main groups now have the opportunity to enforce greater discipline in the market at a time when the demand for catastrophe reinsurance is increasing.

"We should be able to set rates that will provide cover for the medium and long-term not go up and down all the time. That is one of our aims – to stabilise the market," he says.

One of the critical factors in this shift in power has been the impact of rate competition and catastrophe in London, the world's biggest reinsurance market.

The effect has been particularly severe in an esoteric corner of the market known as London Market Excess or LMX, a reinsurance of reinsurance, or retrocession market, which has traditionally provided high level catastrophe protection for the world's insurers and reinsurers.

During the 1980s several dozen syndicates and companies specialised in reinsuring each others' reinsurance exposures.

By 1991 the market had been destroyed by a series of catastrophes, beginning with the UK storms of October 1987.

Reinsurance companies such as Victory, now part of the Dutch group NRG, and the UK's Mercantile and General Re have also suffered heavily from these and other large losses sustained by the market between 1987 and 1991.

At Lloyd's of London the losses cut a swathe through the market, sending dozens of syndicates, and thousands of the individual Names whose wealth provides the market's capital base, spinning out of business.

In 1989, when the market was hit by hurricane Hugo, the Exxon Valdez oil spill, the San Francisco earthquake and a $1bn plus explosion at a petroleum plant in Texas, 401 Lloyd's syndicates sustained record losses of £2.06bn, but nearly half that amount was borne by fewer than a dozen syndicates, which specialised in retrocession business. Specialist retrocession syndicates managed by Gooda Walker agency sustained losses of nearly £500m, for example.

By 1992, the number of Lloyd's syndicates had fallen to 278. Between 1988 and 1992 nearly a third of Lloyd's Names resigned, reducing total membership of the market from over 30,000 to 22,300.

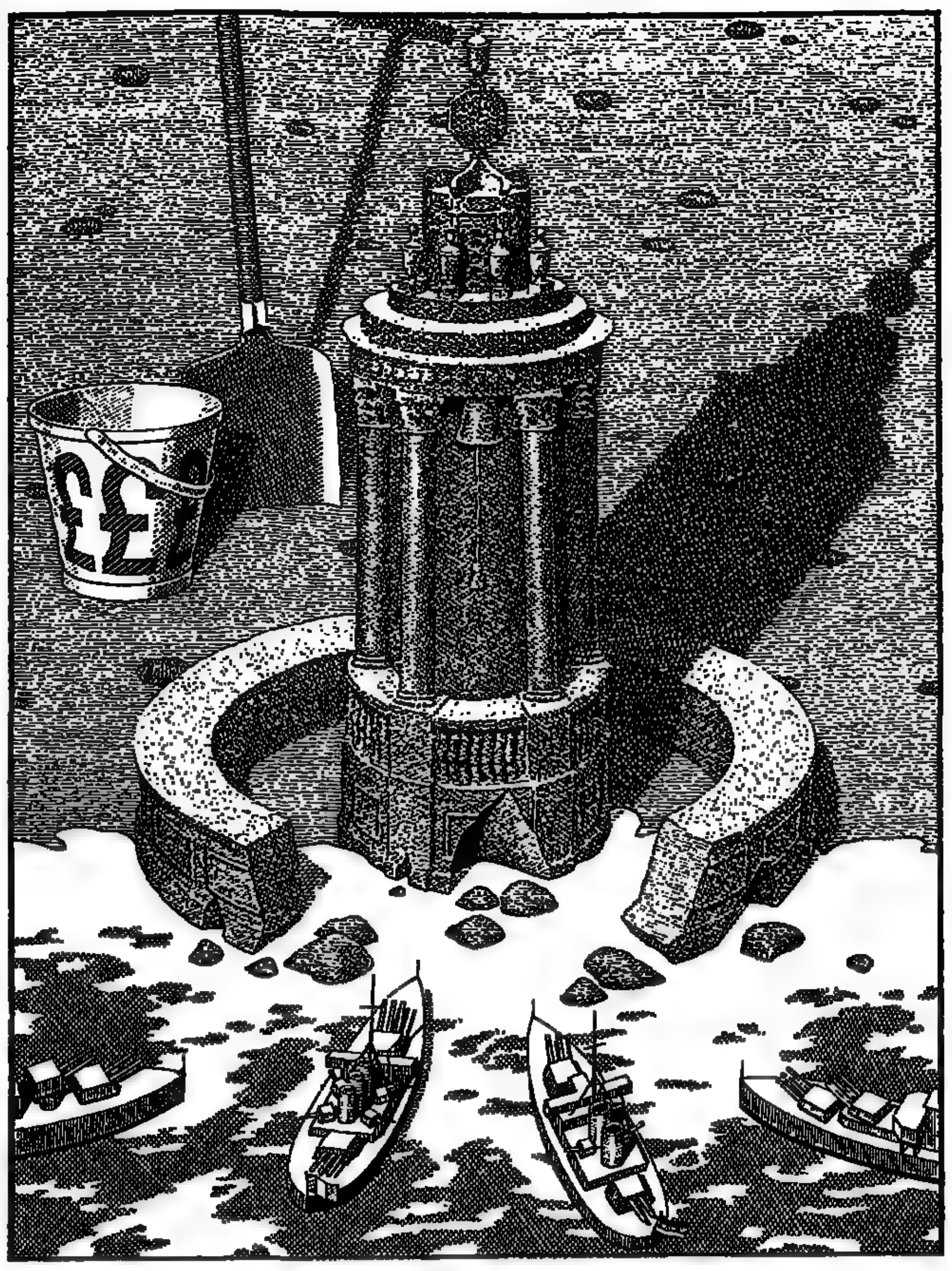
As a result of the collapse of the retrocession market, companies and syndicates specialising in non-proportional reinsurance have found much greater difficulty in offsetting their own exposures.

Forced to retain more risk on their own books, reinsurers have had to examine their exposures more carefully, increasing rates to more realistic levels and often making cover available at much higher levels than hitherto.

Under these pressures many companies have retreated from the market.

Companies such as Yasuda have withdrawn from London, and many larger players – such as Skandia, Sweden's biggest insurer – are seeking to reduce their involvement altogether.

Mr Peugot says that the inability of many smaller companies to meet reinsurance claims has been an important factor in purging the market. "Reinsurers, who – if I may say so – were playing reinsurance, didn't like the play much and have withdrawn."



Mr Alan Bedanes, managing director of Chase Manhattan's insurance unit in London, says that the part of the reinsurance market dependent on retrocession capacity is of "diminishing relevance. In a way you could argue the retro market didn't represent true capital."

Mr Ron Iles, chairman of Alexander Howden Reinsurance Brokers, the reinsurance broking arm of US brokers Alexander & Alexander, believes that capacity in the non-proportional market could fall by at least 30 per cent this year, putting further upward pressure on rates. In the US market, where rates have been softest, the impact of Hurricane Andrew will add to the upward pressure.

Other reinsurers think rises will continue in the 1993 renewal season. UK insurance companies which have drawn on their reinsurance contracts to pay losses from storms in October 1987 and January 1990, paid increases of up to 400 per cent at the end of 1990 and further rises of 25 per cent at the end of last year.

According to Mr John Wetherell, underwriter of syndicate 190, which specialises in non-proportional catastrophe cover at Lloyd's, further increases are on the cards this year. "High level excess of loss covers will see significant increases."

The collapse of the London retrocession market, combined with the increased emphasis on security, is leading many smaller insurers and reinsurers to buy financial reinsurance, which contains elements of both finance and reinsurance.

The financial reinsurer guarantees that a claim will be paid but assumes the risk that over time the sum of premiums paid, plus investment income, will not equal the size of of the agreed payout (the interest rate risk) and/or that claims will emerge before the agreed payment date.

Lloyd's syndicates with exposure to long tail liabilities – in which claims arise many years after the inception of policies – have been buying time and distance policies, which are similar to financial reinsurance transactions, for some time. But over the past 12 months the use of financial reinsurance has become more common.

This is because, the collapse of the LMX market has exposed some of the difficulties faced by syndicates, which are effectively one year joint ventures, in building reserves to cover against the risk of disasters which might occur once in every ten years.

Zurich Insurance, the giant Swiss company, is the world's leading financial reinsurer and its Centre Re subsidiary has already been involved in two of the biggest financial reinsurance deals with Lloyd's, reinsuring syndicates 190 and 417.

Last year Zurich bought Pinnacle, the Bermuda-based financial reinsurer, which has underwritten dozens of time and distance policies for Lloyd's syndicates.

In addition, Lloyd's syndicates have also been given clearance by the market's authorities to make more use of traditional reinsurance.

Observers believe that net result is likely to further increase the power of the larger European and North American reinsurers.

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Illustration: Robin MacFarlan

Trevor Petch on the growing popularity of financial reinsurance

Flexibility attracts doubters

AS RECENTLY as two years ago, "financial reinsurance" was viewed askance by many in the reinsurance industry, but the collapse of the secondary reinsurance market in the wake of the LMX spiral has created a change of mind. At last year's Monte Carlo rendezvous, "Have you considered financial reinsurance?" had become a routine part of some participants' coffee-table discussions.

Further evidence that financial reinsurance is a concept with which time has caught up was provided this summer by the UK Department of Trade and Industry. Guidelines on the recognition by insurers in their statutory returns of liabilities to financial reinsurers under spread loss and prospective aggregate covers demonstrated their use has become more widespread.

Regulators have had other reasons for looking closely at financial reinsurance. An attraction for the buyer is flexibility enabling the shape of either the balance sheet or the profit and loss account to be altered if not at will, certainly at a price.

One early use of financial reinsurance contracts was for so-called "surplus relief", effectively an exercise by which primarily US insurers unable to meet statutory solvency requirements could do so, or do so by a greater margin. Such transactions did not contribute positively to the image of the new products, and led to court actions by some liquidators alleging that financial reinsurers had conspired to conceal insolvency or delay its discovery.

Bermuda was home to most of the leading innovators in the business, such as Belvedere, Centre Re, Forum Re, Pinnacle Re and Scandinavian Re, because a tax-free domicile is essential for maximising return on capital employed. In this small and specialised world, a momentous event was the insolvency last year of Bermuda-based Forum Re, illustrating that although all reinsurance policies are only as good as the security behind them, particular care is required by buyers of new products where the line between profitability and bankruptcy may depend on very fine financial calculations.

The market leader is Centre Re, majority-owned by the AAA-rated Zurich Insurance Group, which last year bought Pinnacle Re from its original owners, London broker CE Heath. Pinnacle specialised in providing "Time & Distance" policies or T Ds to Lloyd's syndicates. T & Ds are not reinsurance policies, since they merely provide a flow of income on a predetermined basis in return for an initial payment. Buyers take a current credit equal to the full indemnity value of the contract, but since the premium is discounted, an accounting profit is created.

Financial reinsurance contracts develop this basic idea, which relies for its operation on the time value of money, and therefore requires a long-tailed account. The reinsurer guarantees a payment to an agreed limit – hence Centre Re's preferred term for its operations as "finite risk reinsurance" – but also accepts the timing risk involved that claims may crystallise faster than anticipated.

Such contracts may be used to cover a book of current business (prospective aggregate covers, PACs, or spread loss covers) and portfolios on which claims are already developing (loss portfolio transfers or LPTs). In either case, the buyer is seeking to reduce the impact of the volatility of the risks insured on its balance sheet.

Traditional reinsurance plays a similar role, but financial reinsurance focuses more directly on the financial rather than on the risk variables. The traditional judgment of the underwriter in assessing a risk is replaced by the joint efforts of a team of non-life actuaries who analyse likely claims development and investment managers with international banking or similar experience whose task is to ensure the income flow.

As a result, new entrants to the financial reinsurance market reflect the insurance and banking sectors. Two of the most important also reflect increasing European interest. The French reinsurer SCOR now has a dedicated financial reinsurer in Bermuda, while Bankers Trust has one in Jersey, a much more convenient location for European customers. Centre Re's response will be to establish in Dublin's new International Finance Centre.

New entrants to the market reflect the insurance and banking sectors. Two of the most important also reflect increasing European interest

The involvement of banks reflects the fact that they are one of the broader range of channels through which business finds its way to financial reinsurers in addition to the traditional broker. The latter are still important – Bankers Trust partners London broker Sedgwick's energy division in a programme for leading petrochemical companies, and financial reinsurance was specifically mentioned as a source of business growth when the broker announced its interims last month – but clients may also be introduced by lawyers, accountants or management consultants.

One advantage is that since it is by definition long-term, multi-year coverage reduces distribution cost over time. In difficult market conditions, another frequent use for such products is for the proceeds of commutations from the increasing number of insolvent traditional insurers. For the strong professional reinsurer which also provides traditional risk-transfer cover, there is a different advantage.

Where the cedant's underwriting performance is such that reinsurance will not be offered on terms which it can accept, financial reinsurance in effect allows the reinsurer to take control of part of its investment portfolio. Part of the price paid by the financial reinsurance buyer is the loss of the investment income it would itself have made with the premium.

This issue is of particular sensitivity for Lloyd's syndicates, which must ensure equity between past, present and future names. T & Ds distort the traditional relationship between current and future names in reinsurance to close (ROTC). Some syndicates are also taking out more sophisticated covers. Most notable was the purchase of an aggregate excess of loss policy from Centre Re by three syndicates managed by the Merrett agency which have substantial exposure to old US liability business, with the aim of managing the certain tail on its ROTC.

There are doubts in the market, however, whether all financial reinsurance products may be properly bought at Lloyd's. Multi-year covers, for example, may suffer restrictions because of the legal one-year life span of syndicates.

This can create other difficulties. A feature of all financial reinsurance contracts is a mechanism for sharing any profits should predicted losses not reach the expected level. This may be by profit commission, or extension of cover. Lloyd's syndicates which buy a financial reinsurance will not legally exist to share the benefit, however.

Captive insurers owned by industrial and other concerns were among the first to appreciate the benefits of the new products. Traditional and financial reinsurance will provide a stabilisation of results, but a financial cover such as a multi-year stop loss policy will establish a band of protection which may be drawn on as required, with a loss ratio which can be fixed each year, and also to build up a fund.

While traditional cover may not be available in any year, or available at a volatile price, financial reinsurance will enable smooth, if not absolutely predictable, income performance. This is likely to benefit the buyer in the equity market and facilitate the raising of capital.

These advantages are equally attractive to the parent of a captive, and as a result the line between financial reinsurance and financial insurance – the tailoring of individual funding programmes for corporate entities – is increasingly becoming blurred. Centre Re, for example, may provide one level of protection while the special risks department of Zurich provides another. ACE Ltd, the Bermuda private insurer established by leading chemical companies to cover liability risks, recently took a stake in Centre Re , and there is potential for further such synergies.

The author is editor of the newsletter Financial Times World Insurance Report.

Lee Coppack says life for brokers looks likely to remain challenging

Shake-out not yet over

THE collapse of the retrocession market and resulting shortage of catastrophe reinsurance capacity is adding to the pressure many London brokers already feel from the problems of a soft insurance market in the US, the weak dollar and generally lower interests rates.

Traditionally reinsurance business has produced good returns for London brokers, particularly in London market excess of loss reinsurance and retrocessions of that reinsurance or LMX business, where the average commission was 10 per cent, but the expenses modest. According to Allan Nichols of stockbroker James Capel, other types of reinsurance outside the US are still producing a good if not spectacular income.

And not everyone is losing money on excess of loss business; the privately-owned Lloyd's broker Benfield Group made a profit of £20m with 68 employees in the year to June 1991, and this year is likely to show further improvement.

One of the biggest changes prompted by the present climate in the market is the re-organisation of the reinsurance business of C T Bowring, London subsidiary of the US broker Marsh & McLennan. From October 1, Bowring's two principal London reinsurance broking operations, C T Bowring Reinsurance and Winchester Bowring will trade together under the name of Carpenter Bowring Ltd.

The name, which will also be used in Melbourne and Sydney, also incorporates that of Marsh's principal reinsurance broking subsidiary, Guy Carpenter and Co. Carpenter is a dominating force in the US market with a strong position with the leading US insurance companies. Bowring Reinsurance has a North American and international divisions and London market specialist Winchester Bowring.

Last year Marsh reported $269m revenues from reinsurance broking. It began its integration of group reinsurance activities two years ago. A New York operating group deals with North American business from the US and London, and a London operating group looks after the rest of the world. Hady Wakefield, chairman of Bowring Reinsurance, said that the latest development is a continuation of the co-operation and cohesion that the group has been building.

Winchester Bowring has found its once highly profitable LMX business is no longer so successful, but it is far from alone. With the near disappearance of retrocession covers, catastrophe capacity has contracted sharply, and some programmes cannot be placed at all. For example, Steel Burrill Jones reported last year that although rates were up in its specialist class of marine excess of loss business, certain risks, particularly retrocessional contracts or programmes where the results had been poor, just could not be placed at any price.

The largest UK broker Sedgwick has suffered a downturn in its reinsurance broking this year. At the half year Sedgwick's reinsurance subsidiary E W Payne reported a 7 per cent drop, 8 per cent excluding currency factors, £43.1m to £40.1m during the same period of 1991 in operating income.

Mr Nichols said that US domestic companies could not buy all the cover they wanted: "A lot of US companies have a reinsurance programme which looks like a string vest."

In a move that echoes the reaction of brokers to the liability insurance crisis of the mid-1980s, Bowring parent Marsh & McLennan and leading US bank J P Morgan plan to raise $300m in capital for a new joint venture property catastrophe reinsurer based in Bermuda. The company, to be called Mid-Ocean, would write catastrophe excess of loss and retrocession business.

Sedgwick's nearest rival in size, Willis Corroon also suffered a gloomy first half with pre-tax profits down 22 per cent to £54.1m, but reinsurance was less of a problem. Although active in the LMX market, Willis did not have a major LMX broker. Business from the US into London was also down, but revenue from companies outside the US and UK was strong during the first half, increasing more than 20 per cent.

Brokers believe evidence is emerging of greater stability in catastrophe reinsurance. Without a big disaster, rates would probably prove profitable

David Rainbow, executive director of Willis Faber & Dumas and in charge of reinsurance operations in France and Benelux, commented: "We are not so opportunistic, so we have been relatively less affected by the change in the market than some of our competitors."

Willis has a long tradition in the market, and its activities have grown partly by organic growth but also through its acquisitions of Stewart Wrightson, specialist reinsurance broker Carter Wilkes and Fane, and Corroon & Black.

Within the last year, all its reinsurance activities have been brought together in two divisions, international reinsurance and UK and North American reinsurance, plus the former Corroon subsidiary G L Hudson. All come under the board of the group's main broking company Willis Faber & Dumas.

Robert Gayner, managing director of the European division, believes Willis has a size, quality and spread in its international reinsurance portfolio that give it a competitive advantage.

Once a pure marine excess of loss broker, Steel Burrill Jones had a substantial proportion of its business in retrocession, classic LMX business which has just about disappeared, according to finance director Tony Keys. Since 1987 the group has been diversifying into different lines, mainly in direct classes. Although reinsurance broking represented just over 40 per cent of the group's turnover in 1991, retail broking and consultancy business may well overtake its contribution to the group's revenues this year.

However, the Benfield Group, which is owned by its directors and staff, is thriving in the excess of loss business. Its chairman Matthew Harding says: "We do not look for business. We want customers who are good enough to pay a proper price for proper reinsurance."

He challenges the orthodox doctrine that brokers need to make a substantial proportion of their profits on the investment income on premiums and claims in transit. Benfield believes in getting the premium to the underwriter within a fortnight and the claim to the ceding company in the same period.

Brokers believe that evidence is emerging of greater stability in catastrophe reinsurance. Mr Keys said that without a big disaster, rates would probably prove profitable, so he did not expect to see substantial further increases.

He felt the likely reduction in the number of Lloyd's names from 1993 could lead to further contraction. The mergers of syndicates can result in decrease of capacity as the new syndicate writes one large line that is not as large as the predecessor syndicates together.

Mr Rainbow says the market appears to have reached a plateau; no new capital is coming in but the contraction has stopped. The key has been a painful process of forcing the direct insurers to retain more of the risks they write. He says the reinsurer's view was: "I will expose my capital if the cedant will expose his."

Life for reinsurance brokers looks likely to remain challenging for some time. Where direct companies are retaining more business, competition among the brokers is increasing for the remaining business. The market is becoming more fragmented; the percentage of premiums placed in Lloyd's by the largest broker has fallen from a peak of 17.8 per cent of the total in 1978 to just under 10 per cent last year.

Robert Gayner at Willis Faber believes the shake-out from the collapse of the LMX spiral and depressed rates is not over. "The market which today has survived is not necessarily in a strong position. We believe there will be more reinsurance failures."

The author is London editor of A Guide to the Leading Insurance Brokers in Europe, published by L'Assurance Française.

REINSURANCE 3

US reinsurers have responded to shifting times, says **Valerie Denney**

Cushioned against misfortunes

WHILE mid-year renewals saw rates for most classes of insurance begin to rise worldwide, mainstream property and casualty rates in North America, the largest insurance market in the world, remain inadequately low.

This is due to raging competition in the US reinsurance market. As more US reinsurers subscribe to the view that at least $100m of capital and surplus is required to be a serious player, so capital has poured into the market without the premium base increasing in line.

US reinsurers' capital (measured by policyholders' surplus, which is the excess of assets over liabilities) has rocketed by 63 per cent since 1987, from $7.9bn to $12.9bn. This has had the effect of depressing pricing levels, as more reinsurers chase the premium dollar to maximise their capital usage.

In spite of the inevitable

While reinsurers show willingness to adapt underwriting practices, they are seeing their industry slimming down

worsening of underwriting performance with a market combined ratio (underwriting and claims expenses as a percentage of premiums) of 103 per cent in 1987 rising to 107 per cent in 1991, investment gains have more than offset underwriting losses. Market net income in 1991 amounted to $2bn compared to $100m the year before. This was aided by around $800m of realised capital gains.

Moreover, because primary insurers are increasing their retention levels and switching much of the residue risk from proportional treaty to excess of loss covers, reinsurers have been cushioned to a large extent against the abnormally long and brutal run of misfortunes primary insurers have had to contend with in recent years.

Analysts reckon it will take a natural disaster involving at least a $2bn insured loss, or the insolvency of a leading insurer, to inflict enough pain on US reinsurers to raise rates. Even the Los Angeles riots and the Chicago floods have not produced losses large enough to make an impact.

If not through rate increases, reinsurers have taken some action against soft and shifting times. Provoked by continuing overcapacity, reinsurers are looking to the primary market as a means to generate new sources of business. "Reinsurers are looking at opportunities where they can issue primary insurance policies for agents marketing specialty insurance and niche programmes," says Andrew Barile, president of Ambel Consultation Services. This trend toward what Mr Barile calls "vertical integration" is bringing fresh capital into non-standard lines such as excess general liability, errors and omissions and non-standard auto liability. Mr Barile cites Phoenix Re, General Re and Nac Re as examples of leading reinsurers who have set up their own primary companies to pursue such business. Observers are unanimous that this trend will continue.

According to Standard & Poor's, the US rating agency, US reinsurers managed to increase net premium volume to $14.9bn (from $13.9bn in 1990). This growth, says S & P, has been largely fuelled by an increased number of financial reinsurance transactions, geared to provide surplus relief and stabilise losses for insurers, which are replacing more traditional forms of reinsurance coverage, and the reclaiming of business from alternative markets such as self-insured municipalities and captive insurers.

While reinsurers show willing to adapt underwriting practices, they are also seeing their industry slimming down. Reinsurers' proclivity to increase surplus, parent companies wanting to bail out of an increasingly complicated business and a reduction in demand among cedants (the reinsurance buyers) for the traditional reinsurance product have all conspired to contract the lower tiers of the market. In the past year, New Zealand Re was purchased by English & American Insurance, MONY Re was acquired by Folksamerica and American Union Re is now a reinsurance department of American States Insurance, to mention but a few examples. This trend is set to continue.

It is the smaller and medium-sized reinsurers which are most vulnerable in the competitive US market. Such companies are being generally excluded by ceding company guidelines from writing casualty related risks. Desperately seeking more market share, they have been forced to take on more property business, some of which is of a catastrophe nature, while purchasing less reinsurance protection due to the shortage of retrocessional capacity. Underwriting results are therefore fatally *weakened.*

Nor is the prognosis good for the large players. Undoubtedly, they have benefited from a "flight to quality" with cedants ever more concerned with size and continuity as financially troubled reinsurers such as Unione Italiana Reinsurance of America have been driven out of business in recent years. Indeed, the top 10 reinsurers accounted for 53 per cent of business written in 1991. This compares with a 44 per cent market share in 1985. No-one disputes that some of this increased market share has been at the expense of smaller players.

But analysts point to three reasons why the top tier reinsurers are living on borrowed time. First, US regulators are proposing risk-based capital rules which should change the way in which security is measured and better identify companies which are applying capital correctly in relation to their resources. The rules will greatly reduce reinsurers' surplus, thereby depriving companies of the investment cushion against deteriorating underwriting results.

The top 10 reinsurers accounted for 53 per cent of business written in 1991, compared with 44 per cent in 1985

Second, Aetna's recent selling off of American Re, the third biggest US reinsurer, has highlighted market reserve deficiencies. Last year, for example, reinsurers raised their reserves by the lowest amount in 20 years. Because of this, buy-out specialists Kohlberg, Kravis, Roberts and Co have written a provision into the American Re deal which requires Aetna to add an additional $500m to the reinsurer's reserves if deemed necessary. According to S & P, with a deteriorating market combined ratio and continuing inadequate rates expected next year, reinsurers will need to make loss reserve adjustments.

And third, the taking on of financial reinsurance, with all the regulatory and accounting uncertainty that entails, and "alternative market" business is begging questions about the future stability of US reinsurance. As Steve Bolland of broker Gill & Roeser remarks, "the final effect of this is uncertain at present, but an educated guess would be that some reinsurers are writing business in areas where they have no experience or statistics to guide them. The results of this may not be apparent for some years.

Valerie Denney takes an overall look at the market place

The big become bigger

OVERCAPACITY, shrinking profit margins and ruthlessly regular catastrophe losses – these are difficult times for the international reinsurance industry.

There have, of course, been the inevitable bail-outs such as Cigna Re UK, Yasuda Europe, Stockholm Re UK and Scan Re, to name but a few London examples. Indeed, even Swedish insurance group, Skandia, among the top five reinsurers during the late Eighties, is now paring down its reinsurance activities worldwide. However, other reinsurers have seen sizeable growth.

The Germans have been particularly aggressive. According to the latest Reactions/Standard and Poor's ranking of the top 100 reinsurers, Hannover Re and Eisen & Stahl Re, (both subsidiaries of industrial insurer Haftpflichtverband der Deutschen Industrie Group, which work in close co-operation) saw their net premiums rise by 15.1 per cent in 1990 to $1664.4m, moving up one place to become the world's sixth largest reinsurance group. This increase was mainly due to Hannover Re's acquisition of a substantial portion of Hamburg International Re's portfolio.

Cologne Re, which is owned by France's Groupe de Suez, also moved up one place to number five as its premiums rose from $1,428.2m to $1,879.3m. Net premiums at Gerling, an ambitious group which owns a majority stake in Frankona, rose from $1,139.1m in 1989 to $1,391.9m (excluding Frankona), leaving the reinsurer at biting point in terms of world ranking. Both companies attribute their growth to new business and increased rates, particularly in non-proportional lines.

Standard & Poor's Top 20 Global Reinsurers

Rank	Company	Net premium (1990) (US$m)
1	Munich Re, Germany	8245.0
2	Swiss Re, Switzerland	5633.8
3	Employers Re, US	2639.0
4	General Re, US	2065.0
5	Cologne Re, Germany	1879.3
6	Hannover Re/Eisen & Stahl, Germany	1664.4
7	Scor, France	1629.4
8	Generali, Italy	1540.8
9	Gerling, Germany	1391.9
10	Mercantile & General Re, UK	1371.3
11	Skandia, Sweden	1211.4
12	NRG, Netherlands	1205.5
13	Frankona Re, Germany	1134.5
14	Tokio Marine & Fire, Japan	927.9
15	American Re, US	921.5
16	Winterthur Group, Switzerland	682.7
17	Lincoln National Re, US	646.9
18	Toa Fire & Marine, Japan	645.8
19	Yasuda Fire & Marine, Japan	645.6
20	Unione Italiana Re, Italy	621.3

Source: Reactions Survey: Standard & Poor's Top 100 Global Reinsurers

Dutch company Netherland Reinsurance Group (NRG) and French reinsurer, Scor, have shown the most notable growth, however, following aggressive acquisition programmes. NRG's 1990 figures, which included the acquisition of the UK reinsurer Victory Re, saw net premiums rise by 87.8 per cent to $1,205.5m, catapulting NRG from 19th position in world ranking to 12th.

Scor, which merged with French neighbour UAP Re in 1989 and acquired Vittoria Re of Italy in 1988, Deutsche Kontinentale of Germany in 1989 and the Unity Group of the US in 1990, is renowned as one of the most aggressive players in the reinsurance market today. Net premiums in 1990 increased by 40.3 per cent to $1,629.4m, moving Scor's world ranking from 12th place to 7th. It is generally believed that Scor is now looking to acquire another European reinsurer.

In the US, General Re which saw a 14.9 per cent increase to $2,065m in 1990, is also rumoured to be circling possible European prey after its ill-fated attempt to buy UK reinsurer Royal Re. With only 5 per cent of its income derived from outside the US, General Re is looking to build a more international portfolio.

Such activity is symptomatic of a shifting market. With all its problems the present cycle also offers opportunities for the larger, better capitalised company. As Julianne Jessup of insurance consultants De Lisle Jessup Scott points out, "the strength and quality of the underlying asset base of reinsurers is becoming increasingly important as insurers focus on the solvency and potential longevity of their protection".

Moreover, as more reinsurance business, particularly in the property/catastrophe area, has to be retained net, it is only the large companies with a large spread of risks and considerable capital accumulation which can afford significant aggregate loss exposure.

And as the big become bigger, so too does their grip on the market. In 1990 the top 10 reinsurers accounted for 53 per cent of the total net premiums of the top 100, while the top 20 accounted for 69.3 per cent. Both figures represented an increase on the previous year's 52.3 per cent and 68 per cent respectively.

Meanwhile, small companies entrenched in niche positions are still well placed. It is widely believed that those who

Small companies entrenched in niche positions are still well placed

can build on a long-standing relationship with the cedant and offer specialised services should be guaranteed a stable future. This further fuels the "polarisation" trend which has been evident in recent years whereby the reinsurance market is divided into large, multi-faceted international companies at one end of the scale and the small specialists at the other.

Given the combination of too many reinsurance players and a shrinking trading base as cedants retain more business, the prospect of more drop-outs and furtner concentration of reinsurance capacity is not in doubt. But it will only be the brave few who take the acquisition route. Ms Jessup stresses the difficulty of assessing long-term liabilities. She argues that NRG's acquisition of Victory Re which was acquired for £122m but shortly afterwards became technically insolvent has done little to encourage acquisitive activity.

The Continental Europeans will continue to dominate, particularly the Swiss and the Germans who are allowed to build up catastrophe reserves which can be offset against tax, unlike their international counterparts. In a market ever more concerned with security, this is an important marketing tool.

There is reason to suspect that US reinsurers, more willing than Europeans to develop new, as yet untested, means of enhancing capital such as financial reinsurance and therefore placing their longevity into question, will remain a weak force outside American borders.

As for Japanese reinsurers, although capital rich and, as such, in a position to become dominant reinsurance players, they have proved risk averse, preferring to focus primarily on domestic business. Such a temperament renders it unlikely that the Japanese will emerge as larger players in the international market.

REINSURANCE 4

THERE IS a continuing and growing demand for reinsurance, particularly catastrophe protection. Insured values increase and maximum potential exposures rise, but this type of business is inevitably volatile. Lloyd's is the second or third largest reinsurer in the world, and reinsurance of all types represents more than half its premium income.

As a consequence of the type of business they write, reinsurers have carried the brunt of catastrophes which coincided with a period of exceptional over-capacity and low premium rates. Lloyd's was never likely to escape the claims its competitors have suffered, and its entrepreneurial nature and constraints on its reserving capability exacerbated the losses and their effects.

The next few years will show to what level individuals are prepared to be sources of risk capital to bear this volatility, particularly if they cannot build up reserves for the purpose of mitigating the worst effects.

The Rowland task force examining Lloyd's put it this way: "Lloyd's underwriting skills and appetite for risk enable it to compete effectively to provide high-level catastrophe insurance and reinsurance. However, its capital structure is not well matched to this business of volatile profit streams. Full pay-out of profits from an 'annual venture' will inevitably result in highly volatile returns."

In spite of the disadvantages and an at least temporary reduction in market capacity, there is little doubt there is a continuing and growing role for Lloyd's as a source of reinsurance capacity. Richard Hazell, deputy chairman and a reinsurance underwriter, said: "There is no question about it. The pure reinsurance market is not large enough to service the needs of the industry."

Lloyd's exercises its greatest influence in reinsurance as well as direct business in the marine market where it has always been a world leader. Lloyd's controls about 30 to 35 per cent of the marine reinsurance market. In non-marine, its share is perhaps 1.5 or 2 per cent, though syndicates often lead business which is substantially placed elsewhere.

Excess of loss business is by a substantial margin the largest type of reinsurance that the market writes. It peaked as a proportion of the market's total income in 1990 with the collapse of the spiral of excess of loss retrocessions, but in 1991, excess of loss business was still responsible for 36.2 per cent of the market's premium income.

Alan Grant is the underwriter for syndicate 991, one of only three new syndicates in Lloyd's this year. The syndicate has a capacity of just over £15m and it is expected to rise to about £25m for 1993. He writes various types of reinsurance including long tail business. He describes the exercise

Lee Coppack assesses the changing role of Lloyd's

Skills transcend disaster

of getting the capacity as one of convincing names "that it was the right time in the underwriting cycle to start a new syndicate even if it was a difficult time in the capital supply cycle."

He stressed the importance of not confusing excess of loss business, a mechanism no different from buying motor insurance above a deductible, from retrocessions of excess of loss where the risks may pass around the same market several times. "What we sold to the membership is that we are bringing fresh business into the market; we are not recycling business from the market."

Potential catastrophe exposures have exploded. The largest North Sea platforms have insured values of between $2bn and $3bn. According to Munich Re, natural disasters are becoming ever more costly. It says that the burden of claims from natural disasters was eight times higher in real terms in the 1980s than the 1960s.

Typhoon Mireille in Japan in September 1991 was the most costly wind storm loss in insurance history. Insured claims reached $5.2bn, though, for once, Lloyd's has not suffered heavily. In 1990 losses from natural disasters reached the record total of $15.3bn.

Said Munich Re: "This trend is primarily the consequence of increasing population density, especially in conurbations, and the simultaneous increase in the concentration of values, as well as the phenomenon of people and industry settling in coastal areas and other regions that are particularly exposed to natural hazards."

The volatility of catastrophe risks and the Lloyd's system of reconstituting each syndicate every year would be less significant if names were better able to offset good years against bad. Neither names nor syndicates are allowed tax deductions for equalisation reserves, deductions in good years which can be brought back into the underwriting account to soften the blow of a serious loss.

The task force concluded that Lloyd's should be able to continue to write catastrophe business but that to do so competitively, names needed to be able to build up equalisation reserves. It said: "Lloyd's is at a severe competitive disadvantage since its principal European competitors enjoy advantageous tax treatment on reserves for both past and future losses."

Talks are still taking place with the Inland Revenue over the possible creation of a form of equalisation reserves which could be used to provide cover for large variations in underwriting performance. "Reserving has become an issue of acute concern within the market," commented the task force.

Seeing themselves as providers of capital for the insurance industry, the reinsurance industry is now telling direct insurers what the cost for that capital is now. It is not just taking the form of higher prices, particularly in the marine market where retrocession capacity has contracted most sharply, but also in requiring direct companies to carry more of the risk themselves. Richard Hazell said: "The reinsurance market really decided it had lost enough money.

When Hurricane Andrew hit the southern states of the US in August, the effect of these increased retentions emerged. Lloyd's was not expecting to face serious claims until insured damages reached around $3bn. Terry Hayday, chief executive of the insurance division of underwriting agent Sturge Holdings, commented: "Had the same loss occurred three years ago, the situation would have been different."

Perhaps the biggest single excess of loss contract in Lloyd's covers the shipowners' liability insurers, the International Group of P & I Clubs. The clubs this year have to retain $15m of each loss instead of $12m in 1991. The top limit has dropped from $1.25bn to $1bn, and the premiums have increased between 91 per cent and 144 per cent depending on the type of ship insured.

The clubs as a group are co-insuring 7 per cent of the bottom layer of the excess, and because of a shortage of capacity in Lloyd's, the brokers used the Bermuda-based XL, a company set up with capital from industrial policyholders during the liability insurance crisis of the 1980s, to complete the slip.

In spite of these encouraging signs, losses from the most recent years are leading to resignations, and many remaining names are wary of increasing their underwriting limits, Lloyd's capacity is expected to drop by 20 to 25 per cent.

Simon Reynolds examines the rising trend in catastrophe losses

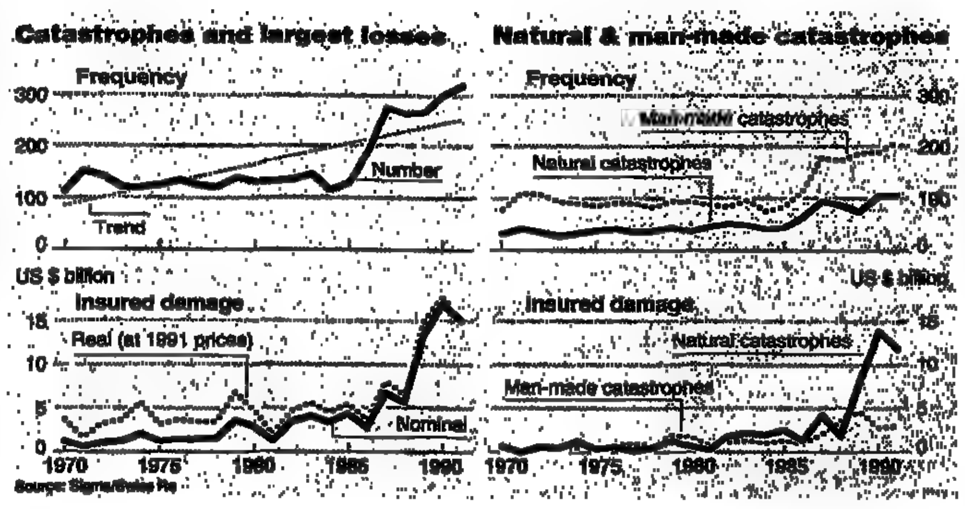
Storm warning for insurers

KLAUS CONRAD, a member of Munich Re's board of management, advises insurers: "Beware of a catastrophe reinsurer who asks no questions ... who does not ask to be paid a fair price for his goods and services; they may turn out to be worthless." This is sound advice: many reinsurers who did not ask questions or a fair price have in recent years been hit by the rising trend in catastrophe losses.

The compact but intense Hurricane Andrew, the first big storm of the 1992 Atlantic hurricane season, is one more example of nature's destructive potential. In its recent review of 1991 catastrophe losses the large international reinsurer Swiss Re argues that "the last five years have shown a loss burden above the long-term trend, both in the natural catastrophe and major man-made loss sectors. If this development continues, the world insurance system will face a huge challenge."

A similar review of natural catastrophes from Munich Re, the world's largest reinsurer, "confirms a continuation in 1991 of the trend that has been observed for more than 30 years: natural disasters are becoming more and more costly," in terms of overall economic loss and insured loss.

Since the mid-1980s insured damage from natural catastrophes have far outstripped significant man-made losses.



Typhoon Mireille which swept Japan for two days in September 1991 caused insured damage of $5.2bn – the largest insured loss from a single storm. For the third year a wind storm produced a $4bn plus loss, following Hurricane Hugo in September 1989, and the storm Daria in western Europe in January 1990. Insured wind storm damage throughout North America totalled more than $3bn in 1991, while a bush fire in California in October 1991 caused an insured loss of $1.2bn.

Looking at man-made catastrophe losses the trend is similar: more losses costing more money. Swiss Re's survey argues that in totalling more than $3.2bn in 1991 "man-made insured damage is still clearly above the long-term average". The biggest losses in this category were the sinking of the Sleipner A gas platform while still in Grandsfjord off Stavanger, Norway (insured loss $334.5m), and the fire during construction of the London Underwriting Centre ($290m). The latter highlighted the increasing risk of construction site losses developed countries.

According to Munich Re, insurers' real claims burdens from natural disasters in the decade to 1991 were eight times heavier than during the 1960s. Figures from Swiss Re, show that total insured damage from natural disasters and large man-made losses together bounced around between $2bn and $6bn (at 1991 prices) between 1970 and 1985. Since then the yearly totals have been sharply higher: reaching $14bn in 1989, $18bn in 1990, $15bn in 1991.

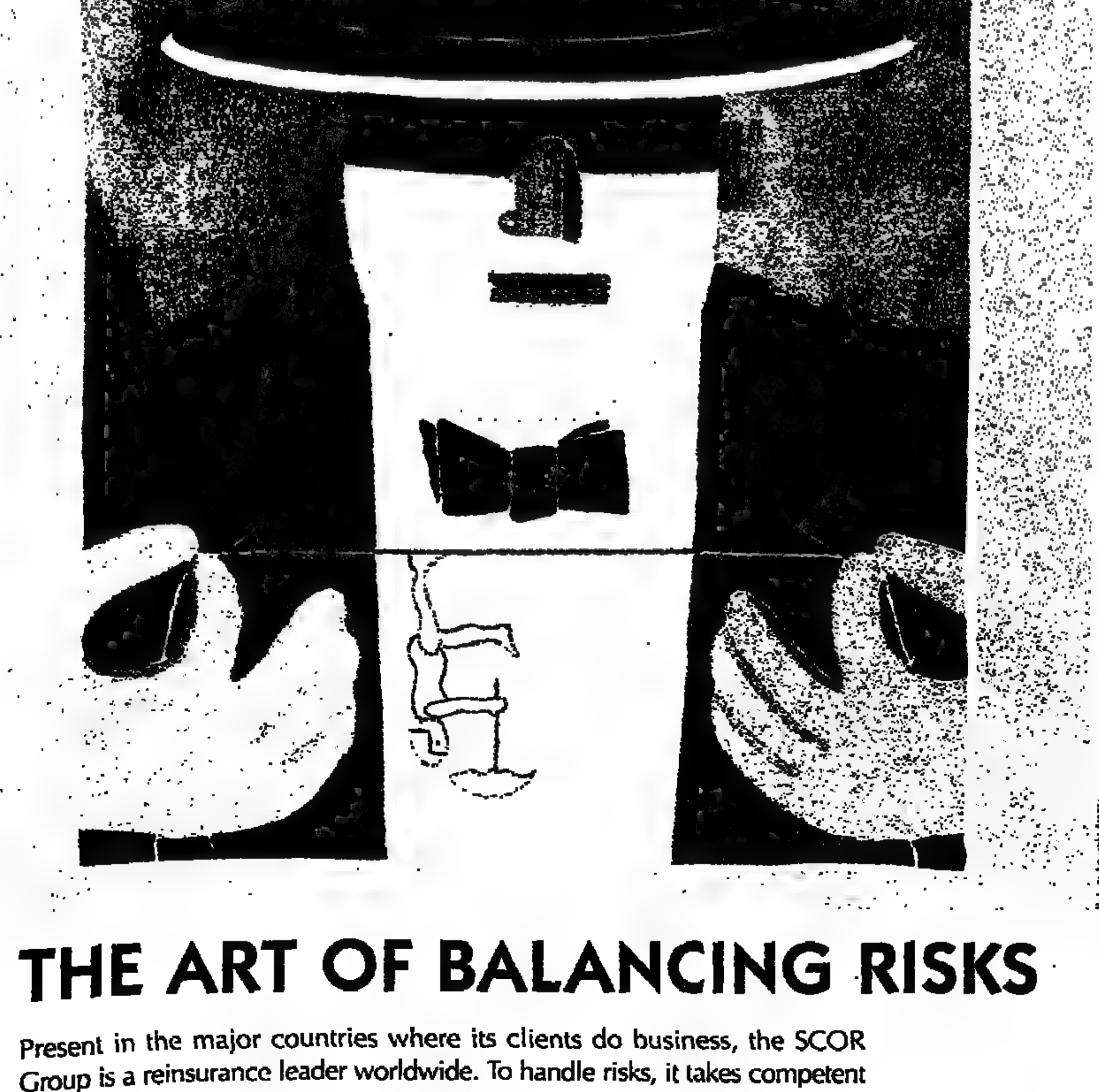
These figures are small in comparison with the overall $1,200bn taken in premiums each year by insurers worldwide. However, the recent trend in frequency and value of catastrophe losses is of concern because of its uncertainty. Is the trend going to be the norm for future years? And how far will the figures rise?

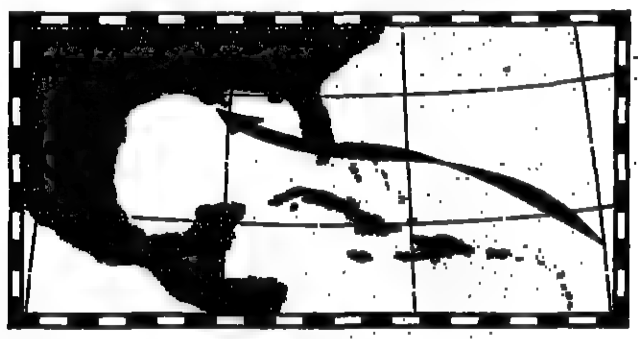
Piper Alpha was an old platform (169 people died in the 1988 disaster and the insured loss was $1.4bn) – the newer North Sea platforms are multi-billion dollar structures. Insurance market estimates of possible future natural catastrophe incidents make grim reading. A large earthquake in Tokyo or San Francisco could lead to a $50-$100bn dollar loss. If a Hugo-intensity storm had landed farther north up the US east coast in New York, the loss could have been twice that actually suffered.

According to Andrew Dlugolecki, chief manager operations at General Accident, there are many factors driving these trends of rising cost and frequency. One significant factor may be that the weather trends of the 1950s, 1960s and 1970s were milder than the long-term trend, and recent storm developments are a return towards that longer-term trend. Other factors raising catastrophe losses include:

- Increasing concentration of values: industries have tended to build increasingly expensive plant, of higher output, with greater product inventory on site.
- Increasing business interruption (B/I): more businesses are buying B/I insurance cover, and B/I insured losses are rising at a faster rate than property losses. Larger, higher output plant take longer to rebuild in the event of a disaster.
- New business practices: the development of just-in-time (jit) techniques is one facet of increasing dependencies between suppliers and customers. In recognition of this more supplier/customer B/I extensions to cover are being purchased.
- New construction techniques: fast track and unitary methods mean a higher percentage of high value finished fixtures and fittings are on site during earlier stages of building construction, possibly a time of raised risk from fire.
- Increasing population density: cities are becoming larger and, on average, richer. If a natural disaster hits, losses are increased. Much of the loss from a large wind storm is accounted for by many, relatively small claims from householders.
- New geographical areas: both industry and populations are moving into increasingly risky areas, especially coastal regions more susceptible to storms, storm surges, tsunamis (huge sea waves).
- Increasing insurance density: greater demand from customers has led to more insurance purchasing. It was easy to sell wind storm cover in Europe after the 1987 and 1990 storms. A corresponding push from insurers selling cheaply in a soft market added to the trend.
- Changes in climate: natural variation in climate alters the propensity for climatic events. The jury is still out on global warming, but scientists argue that if the troposphere is warming, the earth's weather system will contain more energy leading to greater intensity of climatic events.

What is to be done? Mr Conrad argues that "private fortunes gathered over generations, were lost by Lloyd's names, reinsurers mobilised their emergency reserves, retrocessionaires started selling their nest eggs. [Premiums] apparently had been too low, otherwise one would not have lost in five years, what it had taken 50 to collect". His solution is simple: a return to insurance basics; premiums rates commensurate with risk, appropriate levels of deductibles, proper calculation of probable and possible catastrophe scenarios, proper loss prevention, loss mitigation, and accumulation control.





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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible] (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

Centre Point,

103 New Oxford Street, London WC1A 1QH

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth						0202 298422
Cash	1	50 78	50 78	51 28	10 00	45296
Cnerfld Privance	5½	47.61	47 95	51 12	9 1	46075
Ethical	5½	40 34	41 34xd	43.97	5 9	46998
European Growth	5½	45 05	45.19	48 20	4 6	46171
Income	5½	40 72	41 16	43 90	8 4	41394
Intl Growth	5½	59 26	59.60	63 57	3 9	41395
Managed	5½	51 80	52 43	55 92	5 0	41396
UK Growth	5½	42 35	42 99	45 85	6 6	41397
Standard Chartered Equitor (1200)F						
69 Old Broad Street, EC2M 1QS						071-380 6521
Mngd Exempt Acc	3	175 6	177 6	184 9	3 42	41499
Do Income	3	163 1	164 9	171 7	3 42	41501
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ						0800 393777
Managed Acc	5¼	33 38	33 38	35.47	2.57	41398
UK Equity Gth Acc	5¼	44 82	45 63	48 49	2.36	41399
UK Eq High Inc Inc	5¼	25 98	26 57	28 24	5 96	41400
UK Eq High Inc Acc	5¼	29.77	30.45	32.36	5 96	46962
UK Equity Gen Acc	5¼	43 77	44 51	47 30	3.61	41401
UK Equity Gen Inc	5¼	33 87	34 45	36 61	3 61	41402
UK Larger Cos Acc F	7½	289 3	293 0	318 0	5 03	41403
UK Larger Cos Inc F	7½	229 3	232.3	252.1	5.03	41404
[illegible]	5¼	28 67	28 74	30 40	7 39	41405
O'seas Larg Cos Acc F	7½	184.5	187.5	203.5	1 88	41406
Nth American Acc	5¼	31 08	31 20	33 15	0 99	41407
Far East Acc	5¼	34 20	34 20	36.34	0.20	41408
European Acc	5¼	31 65	32 86	34.92	1 67	41409
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh						031-226 3271
American ♥	5	245 2	245.2	261 0	0 92	41410
(Accum Units) ♥	5	288 6	[illegible]	[illegible]	[illegible]	[illegible]
British	5	714 3	732 0xd	774.9	6 95	41416
(Accum Units)	5	1232.2	1262.7	1336 0	6 95	41417
European	5	317 4	317 4	335 8	1.43	[illegible]
(Accum Units)	5	344 1	[illegible]	[illegible]	1 43	[illegible]
Japan	5	88.04	88.04	93 67	[illegible]	[illegible]

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	455.8	455.8	489.5	0.9	45095
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
LJ International	5¼	84.56	84.56	90.91	—	44804
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas IoM 0624 662256						
Merc IoM Fund	5	95.38	95.38	101.8	6.5	45970
Merc Intl Bond	5	50.10	50.10	52.68	8.3	45971
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas, IoM 0624 622444						
Secure High Income	6	£1.0304	1.0304	1.1046	8.15	47486
Unibank Scandinavian Fund Ltd						
19-21, Circular Rd, Douglas, IoM 0624 629420						
Scandinavia Fd	5	—	118.00	125.72	1.0	45323

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
ATC Fund Management (SG) Ltd				
SG International	$10.71		—	45089
AXA Equity & Law Intl Fund Mgs				
European Equity	143.24	150.76	—	44904
Far Eastern Equity	$2.2724	2.3917	—	44905

Equitilink International Mngt Ltd

First Aust Prime Inc Inv Co Ltd NAV Aug 27 C$12 26xd
First Aust Prime Inc Inv Co Ltd NAV Aug 27 US$10 27xd
NAV Diluted to reflect exercise of all Wnts C$12 10xd US$10 13xd

	Bid Price	Offer Price	Yield Gross	City-line
Fidelity Investment (CI) Ltd				
Sterling American	£2.493	2.6241	—	44979
Fleming Group				
Robert Fleming Management (Jersey) Ltd				
Czechoslovakia Inv Corp Inc	$9.46		—	—
Deutschland Inv Co NAV	DM16.53		—	45096
Foreign & Colonial Mngt (Jersey) Ltd				
Hypo Foreign & Colonial Reserve Asset Fd Ltd				
US$ Cash	$10.82		—	45005
Sterling Cash	£12.22		—	45007
US$ Bonds	$15.48		—	45008
Multicurrency Bonds	$21.23		—	45009
Sterling Bonds	£13.38		—	45010
D Mark Bonds	DM10.70		—	45011
Ecu Bonds	Ecu11.45		—	45012
UK Equities	£9.85		—	45014
US Equities	$16.74		—	45015
Japanese Equities	Y632		—	45016
Contl Euro Equities	DM15.32		—	45017
UK Negative Equities	£13.58		—	—
US Negative Eq	$9.93		—	—
Japanese Negative Eq	Y—		—	—
Contl Eur Negative Eqs	DM—		—	—
UK Geared Equities	£10.00		—	—
US Geared Equities	$—		—	—
Japanese Geared Eqs	Y1,146		—	—

Alliance Capital

Alliance International Currency Reserves

US$ Reserves Aug 28–Sep 3 0.000065337 (2.38%)

	Bid Price	Offer Price	Yield Gross	City-line
Global Asset Management				
GAMerica	$314.00		—	45100
GAM Arbitrage	$305.81		—	45101
GAM ASEAN	$231.96		—	45102
GAM Australia	$133.00		—	45103
GAM Boston	$319.15		—	45105
GAM European	$122.78		—	47432
GAM Europe Fd	$83.73		—	47981
GAM France	FFr1575.74		—	45108
GAM Franc-val SFr	SFr142.94		—	45109
GAM GAMCO	$150.04		—	45123
GAM Global Fd	$117.42		—	45110
GAM High Yield	$133.30		—	45112
GAM Hong Kong	$369.01		—	45113

North Star Fund Managers—Contd.

North Star International Currency Fund

Northfield International Ltd

	Bid Price	Offer Price	Yield Gross	City-line
NAV Jul 31	$11.32		—	47012

Oday Asset Management Limited

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Dollar under strain

THE DOLLAR could set a new record low against the D-Mark this week after the release of last Friday's employment report for August, *writes James Blitz.*

UK clearing bank base lending rate 10 per cent from May 5, 1992

The plunge in the US non-farm payrolls by 83,000 seriously undermined investors' confidence in the American economy, and is certain to hang over the market for the next few trading days.

The cut in the US fed funds rate on Friday, by 0.25 percentage points to 3 per cent, is also certain to intensify speculation of more cuts in US interest rates. This will widen the differential between US and German rates which is driving the D-Mark upwards and the dollar downwards.

The question on investors' minds is whether a further decline in the dollar will trigger new tensions in the European exchange rate mechanism. Sterling's problems appeared to have eased after the UK government announced its ingenious plan to borrow £7.27bn in D-Marks from the banking system, and buy the pound with them.

According to Mr Paul Chertkow, global currency strategist at UBS Phillips and Drew in London, sterling's fate appears to be inextricably interconnected with the dollar's, whatever support scheme the UK authorities may come up with. Both currencies rose and fell in tandem last week and may do so again.

The sum of money that the UK Treasury is borrowing may seem small as trading picks up after the summer. Last month, Britain's underlying gold and currency reserves fell by £689m, reflecting heavy intervention by the Bank. But this money was used in the tranquil conditions prevailing in August. As trading goes into full swing, the Bank may pay heavily to support the currency.

POUND SPOT - FORWARD AGAINST THE POUND

Sep 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9630 - 2.0015	1.9950 - 1.9960	1.12-1.10cpm	6.68	3.45-3.42pm	6.89
Canada	2.3610 - 2.3920	2.3905 - 2.3915	1.04-0.99cpm	5.09	3.20-3.13pm	5.29
Netherlands	3.1450 - [illegible]	[illegible]	¼-parcpm	0.24	½-¼pm	0.24
Belgium	57.60 - 58.30	57.80 - 57.90	3-2cpm	0.52	8-2pm	0.35
Denmark	10.8075 - 10.8950	10.8350 - 10.8450	¾-1¾oredis	-1.18	1¼-3¼dis	-0.90
Ireland	1.0565 - 1.0680	1.0565 - 1.0575	0.07-0.03cpm	0.57	0.15-0.08pm	0.44
Germany	2.7925 - [illegible]	2.7975 - [illegible]	⅛-parpfpm	0.27	¼-⅛pm	0.27
Portugal	244.30 - 247.00	244.50 - 245.50	93-151cdis	-5.98	267-360dis	-5.12
Spain	181.60 - [illegible]	[illegible] - 182.25	43-55cdis	-3.23	139-164dis	-3.39
Italy	2131.50 - [illegible]	[illegible]	13-15lirdis	-7.84	32-34dis	-6.16
Norway	11.0500 - 11.1325	11.0900 - 11.1000	2-2⅝oredis	-2.50	5¾-6½dis	-2.07
France	9.5200 - [illegible]	9.5225 - 9.5325	par-¼cdis	-0.16	½-⅜dis	-0.29
Sweden	10.2175 - 10.2550	10.2375 - 10.2475	5¼-6¼oredis	-6.96	12¼-13½dis	-4.98
Japan	245.00 - [illegible]	[illegible]	1⅛-1¼ypm	5.80	3⅞-3⅝pm	6.10
Austria	19.65 - 19.92	19.69 - 19.72	1-¼gropm	0.38	2¼-⅜pm	0.32
Switzerland	2.4925 - 2.5300	2.4925 - 2.5025	½-¼cpm	1.80	1¼-1pm	1.80
Ecu	1.3800 - 1.3930	1.3800 - 1.3810	0.12-0.16cdis	-1.22	0.36-0.43dis	-1.14

Commercial rates taken towards the end of London trading. Six-month forward dollar 6.68-6.63pm. 12 Month 12.70-12.60pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Sep 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9630 - 2.0015	1.9950 - 1.9960	1.12-1.10cpm	6.68	3.45-3.42pm	6.89
Ireland†	1.8450 - 1.8920	1.8810 - 1.8820	1.12-1.09cpm	7.05	3.35-3.28pm	7.05
Canada	1.1960 - 1.2000	1.1980 - 1.1990	0.13-0.15cdis	-1.40	0.36-0.39dis	-1.25
Netherlands	1.5700 - 1.6225	1.5820 - 1.5830	0.84-0.87cdis	-6.48	2.53-2.58dis	-6.46
Belgium	28.75 - 29.60	28.95 - 29.05	15.00-17.00cdis	-6.62	45.00-48.00dis	-6.41
Denmark	5.4050 - 5.5475	5.4300 - 5.4350	3.40-3.70oredis	-7.84	10.60-11.30dis	-8.06
Germany	1.3935 - 1.4385	1.4025 - 1.4035	0.74-0.75pfdis	-6.37	2.26-2.28dis	-6.47
Portugal	121.65 - 122.00	121.90 - 122.00	117-127cdis	-12.00	355-380dis	-12.05
Spain	90.90 - 93.25	91.30 - 91.40	75-77cdis	-9.98	231-239dis	-10.29
Italy	1069.00 - 1100.00	1073.00 - 1073.50	13.00-15.00lirdis	-15.65	34.50-37.50dis	-13.42
Norway	5.5200 - 5.6775	5.5575 - 5.5625	4.60-4.90oredis	-10.25	12.60-13.20dis	-9.28
France	4.7475 - 4.8875	4.7725 - 4.7775	2.71-2.76cdis	-6.87	8.32-8.42dis	-7.01
Sweden	5.1000 - 5.2500	5.1300 - 5.1350	5.45-5.70oredis	-13.03	14.75-15.30dis	-11.71
Japan	122.90 - 124.75	123.30 - 123.20	0.07-0.08ydis	-0.73	0.14-0.15dis	-0.47
Austria	9.8525 - 10.0925	9.8750 - 9.8800	5.10-5.45grodis	-6.41	15.55-16.55dis	-6.50
Switzerland	1.2440 - 1.2865	1.2505 - 1.2515	0.48-0.51cdis	-4.75	1.47-1.51dis	-4.76
Ecu	1.4100 - 1.4475	1.4420 - 1.4430	0.92-0.90cpm	7.57	2.77-2.74pm	7.64

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

£ IN NEW YORK

Sep 4	Close	Previous Close
£ Spot	1.9955-1.9965	1.9825-1.9835
1 month	1.13-1.11pm	1.08-1.07pm
3 months	3.44-3.41pm	3.29-3.26pm
12 months	12.7-12.6pm	12.1-12.0pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Sep 4	Bank of England Index	Morgan Guaranty Changes %
Sterling	92.4	-19.8
U.S. Dollar	58.6	-30.0
Canadian Dollar	97.0	-4.0
Austrian Schilling	112.0	+13.6
Belgian Franc	114.1	-0.2
Danish Krone	112.3	+5.4
D-Mark	122.8	+28.4

BASE LENDING RATES

	%
Adam & Company	10
Allied Trust Bank	10
AIB Bank	10
● Henry Ansbacher	10
B & C Merchant Bank	10.5
Bank of Baroda	10
Banco Bilbao Vizcaya	10
Bank of Cyprus	10
Bank of Ireland	10
Bank of India	10
Bank of Scotland	10
Banque Belge Ltd	10
Barclays Bank	10
Brit Bk of Mid East	10
● Brown Shipley	10
CL Bank Nederland	10
Citibank NA	10
City Merchants Bank	10
Clydesdale Bank	10
Co-operative Bank	10
Coutts & Co	10
Credit Lyonnais	10
Cyprus Popular Bk	10
Dao Heng Bank Plc	11
Duncan Lawrie	10
Equatorial Bank plc	10
Exeter Bank Limited	10.5
Financial & Gen. Bank	10
● Robert Fleming & Co.	10
Robert Fraser & Ptnrs.	10.5
Girobank	10
● Guinness Mahon	10
Habib Bank AG Zurich	10
● Hambros Bank	10
Hampshire Trust Plc	13.5
Heritable & Gen Inv Bnk.	10
● Hill Samuel	10
C. Hoare & Co.	10
Hongkong & Shanghai	10
Julian Hodge Bank	10
● Leopold Joseph & Sons	10
Lloyds Bank	10
Meghraj Bank Ltd	10
McDonnell Douglas Bnk	10
Midland Bank	10
Mount Banking	10
Nat Westminster	10
Northern Bank Ltd	10
Nykredit Mortgage Bank	10.5
Provincial Bank PLC	14
● Rea Brothers	10
Roxburghe Bank Ltd.	11
Royal Bk of Scotland	10
● Smith & Williamson Secs.	10
Standard Chartered	10
TSB	10
Unibank plc	10
● United Bk of Kuwait	10
Unity Trust Bank Plc	10
Western Trust	10
Whiteaway Laidlaw	10
Yorkshire Bank	10

● Members of British Merchant Banking & Securities Houses Association.

… tender rate of discount 9.5879. ECGD Fixed Rate Sterling Export Finance. Make up day August 28, 1992. Agreed rates for period Sep. 23, 1992 to October 25, 1992, Scheme I: 11.38 p.c., Schemes II & III: 11.66 p.c. Reference rate for period August 1, 1992 to August 28, 1992, Scheme IV&V: 10.379 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from September 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 6½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 8½ per cent; nine-twelve months 8½ per cent; Under £100,000 7 per cent from May 6, 1992, Deposits withdrawn for cash 5 per cent.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY SEPTEMBER 4 1992								THURSDAY SEPTEMBER 3 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	% chg ($) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	129.10	-14.4	95.92	100.50	94.17	119.27	-9.7	4.53	128.80	96.25	100.92	94.52	119.04	153.68	126.79	149.85
Austria (19)	152.79	-8.3	113.52	118.94	111.45	111.44	-15.1	2.62	150.57	112.52	117.97	110.49	110.54	186.70	139.27	182.86
Belgium (42)	144.83	+0.3	107.61	112.74	105.64	102.68	-6.9	5.94	142.44	106.44	111.60	104.53	102.40	152.27	135.87	129.26
Canada (114)	127.79	-8.2	94.95	99.48	93.21	110.91	-2.8	3.14	127.73	95.45	100.07	93.73	110.85	142.12	124.32	138.89
Denmark (33)	214.88	-19.6	159.65	167.27	156.73	158.76	-26.0	1.79	211.05	157.72	165.37	154.88	157.09	273.94	211.06	251.59
Finland (15)	58.47	-25.1	43.44	45.51	42.65	47.85	-29.3	2.95	60.08	44.90	47.07	44.09	48.56	89.80	58.47	95.61
France (102)	165.22	+9.8	122.75	128.61	120.50	123.75	+1.2	3.63	164.45	122.89	128.84	120.67	123.88	168.75	148.08	138.13
Germany (64)	119.27	+1.7	88.61	92.88	86.99	86.99	-6.0	2.63	118.28	88.39	92.69	86.80	86.80	129.69	114.42	109.21
Hong Kong (53)	234.48	+33.0	174.21	182.53	171.04	232.89	+32.1	3.62	235.22	175.78	184.30	172.62	233.40	259.55	176.36	165.20
Ireland (16)	158.22	-5.7	117.55	123.17	115.41	118.49	-12.4	4.46	157.96	118.04	123.76	115.92	118.96	173.71	151.78	156.38
Italy (78)	59.75	-20.7	44.39	46.51	43.58	47.89	-25.9	4.33	59.56	44.51	46.67	43.71	48.04	80.86	59.58	72.26
Japan (473)	115.97	-14.6	86.17	90.28	84.60	90.28	-15.8	0.94	113.14	84.54	88.64	83.03	88.64	140.95	87.27	127.76
Malaysia (69)	237.60	+10.9	176.53	184.95	173.31	227.99	+1.6	2.77	236.27	176.56	185.11	173.38	226.72	250.47	212.49	207.59
Mexico (18)	1307.49	-6.0	971.42	1017.82	953.71	4385.12	-5.2	1.37	1299.08	970.77	1017.84	953.31	4354.08	1789.77	1259.94	1210.86
Netherland (25)	167.03	+9.4	124.10	130.03	121.84	120.64	+1.3	4.65	166.98	124.78	130.83	122.54	121.26	167.29	147.88	139.53
New Zealand (14)	43.13	-8.2	32.04	33.58	31.46	42.31	-8.4	5.37	42.32	31.62	33.16	31.05	41.58	48.52	41.90	47.14
Norway (23)	147.02	-17.8	109.23	114.45	107.24	110.95	-23.4	2.27	146.68	109.61	114.92	107.64	111.24	192.95	136.40	198.88
Singapore (38)	191.97	-12.6	142.63	149.44	140.02	141.32	-13.8	2.34	192.88	144.13	151.12	141.54	141.68	229.63	180.71	197.65
South Africa (61)	189.97	-23.7	141.14	147.88	138.57	157.13	-9.2	3.23	192.95	144.19	151.18	141.59	156.93	263.60	186.01	242.61
Spain (49)	145.05	-7.3	107.77	112.92	105.80	100.38	-12.4	5.85	144.06	107.65	112.88	105.72	100.24	161.72	133.79	151.38
Sweden (30)	181.69	+0.3	134.99	141.44	132.53	138.06	-7.1	2.98	179.02	133.78	140.27	131.38	135.88	200.28	171.48	187.84
Switzerland (62)	115.65	+15.2	85.92	90.03	84.37	89.70	+8.4	2.39	114.46	85.53	89.69	84.01	89.66	115.84	95.99	92.41
United Kingdom (226)	185.94	+0.3	138.14	144.73	135.61	138.14	-5.9	5.32	186.34	139.25	145.98	136.73	139.25	200.07	165.85	181.71
USA (522)	169.97	+0.1	126.28	132.32	123.98	169.97	+0.1	2.99	170.31	127.27	133.44	124.98	170.31	173.10	160.92	157.92
Europe (786)	149.44	+1.2	111.03	116.33	109.01	110.63	-5.6	4.31	148.96	111.31	116.71	109.32	110.94	156.86	139.31	141.00
Nordic (101)	163.49	-11.0	121.47	127.27	119.25	118.45	-17.7	2.54	161.19	120.45	126.30	118.29	117.52	188.52	159.53	184.77
Pacific Basin (715)	119.81	-12.6	89.01	93.27	87.39	95.06	-13.5	1.29	117.22	87.60	91.85	86.02	93.54	141.97	93.70	129.30
Euro - Pacific (1501)	131.80	-7.0	97.92	102.59	96.13	101.36	-10.8	2.67	130.06	97.19	101.90	95.44	100.61	145.21	113.80	134.27
North America (636)	167.32	-0.3	124.32	130.27	122.07	165.95	-0.1	2.99	167.64	125.27	131.36	123.04	166.26	170.31	158.70	156.67
Europe Ex. UK (558)	127.38	+1.8	94.64	99.18	92.93	94.83	-5.7	3.58	126.47	94.50	99.11	92.82	94.75	132.98	121.81	117.07
Pacific Ex. Japan (242)	157.37	+4.9	116.92	122.53	114.80	142.01	+5.5	3.80	157.27	117.52	123.24	115.42	141.91	175.31	149.00	144.57
World Ex. US (1694)	132.96	-7.3	98.79	103.51	96.99	103.35	-10.4	2.69	131.33	98.14	102.91	96.38	102.62	146.91	116.18	136.21
World Ex. UK (1988)	140.52	-5.1	104.40	109.39	102.50	122.47	-6.3	2.49	139.43	104.19	109.25	102.33	121.87	150.58	127.21	138.79
World Ex. So. Af. (2155)	144.22	-4.3	107.15	112.28	105.20	123.55	-6.3	2.80	143.23	107.03	112.23	105.12	123.12	153.05	130.04	141.86
World Ex. Japan (1743)	160.90	+0.0	119.54	125.27	117.38	143.14	-2.1	3.50	160.91	120.24	126.09	118.10	143.42	165.40	153.20	151.69
The World Index (2216)	144.45	-4.5	107.32	112.45	105.37	123.88	-6.4	2.80	143.49	107.23	112.43	105.30	123.45	153.70	130.66	142.51

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes with effect 7/9/92: Deletions: Landis & Gyr (P.C.) (Switzerland) and Valenciana Cementos (Spain).

Constituent changes during the week ending 4/9/92: Deletions: Hafnia A and B (Denmark).

FINANCIAL TIMES STOCK INDICES

	Sept 4	Sept 3	Sept 2	Sept 1	Aug 28	Aug 27	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.38	89.06	87.66	87.03	87.04	87.29	89.75	85.11	127.4	49.18
Fixed Interest	105.44	104.17	103.40	102.99	103.19	103.26	105.35	97.15	106.35	50.53
Ordinary	1729.0	1741.0	1682.8	1670.0	1680.6	1688.6	2149.7	1670.0	2149.7	49.4
Gold Mines	74.5	75.6	75.1	77.4	79.4	79.3	160.6	74.5	734.7	43.5
FT Act All-Share	1118.19	1123.61	1094.45	1089.89	1096.99	1097.40	1326.36	967.46	1326.36	61.92
FT-SE 100	2362.2	2381.9	2315.0	2298.4	2312.6	2311.6	2737.8	2281.0	2737.8	986.9
FT-SE Eurotrack 100	1029.27	1031.46	1011.19	1007.79	1013.54	1017.14	1199.58	993.01	1199.58	900.45
FT-SE Eurotrack 200	1073.24	1074.12	1060.07	1048.46	1053.68	1056.13	1248.79	1029.56	1248.79	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	Wk % change	Amnt £m	Interest due		Last xd	City line
"Shorts" (Lives up to Five Years)								
Treas 8¼pc 1993		99¾	0.3	800	Au18	Fe18	13.7	5047
10pc 1993‡‡		100⅛	0.3	1,886	Oc15	Ap15	9.3	1279
12½pc 1993‡‡		102¼	0.4	1,160	Ja14	Jy14	8.6	1298
Funding 6pc 1993‡‡		97¼xd	0.4	500	Mr15	Se15	10.8	1276

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs	h	15⅝xd	—	68c	FeMyAuNv	10.7	1503
♥Allegheny & W		313p	7.9	30c	–	–	–
Amdahl		698p	1.2	10c	NvMrJeAu	31.1	–
Amer Cyanamid		28½	–1.7	$1.66	MrJeSeDe	4.9	–
Amer Express		11xd	2.6	$1.00	FeMyAuNv	29.6	1594
Amer T & T		21¾xd	1.5	$1.32	FeMyAuNv	27.3	1597
Ameritech		34½	–.4	$3.52	FeMyAuNv	28.3	–
BankAmerica		22¼xd	0.8	$1.30	FeJeSeDe	19.8	1744
Bankers NY		31¼xd	1.6	$2.94	ApJyOcJa	27.12	1745
Bell Atlantic		24½	–.5	$2.60	FeMyAuNv	4.7	–
BellSouth		25¼	–1.4	$2.76	FeMyAuNv	6.4	–
♥Bethlehem Steel		8⅞xd	1.0	–	MrJeSeDe	0.2	1821
Bowater		865pxd	—	$1.20	OcJaApJy	9.3	1884
CPC	h	25½xd	4.3	$1.20	JaApJyOc	26.6	2263
♥Cadiz Land Inc		128p	—	–	–	–	–
Campbell Soup		19⅛xd	3.0	76c	OcJaApAu	2.7	2050
Chase Manhattan		11⅝xd	–.5	$1.20	FeMyAuNv	24.7	2109
Chrysler		10⅞xd	5.7	60c	ApJyOcDe	17.8	2135
Citicorp		8¼xd	–2.9	–	–	23.10	2141
Colgate-Palm		28⅜xd	2.5	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		846p	–2.1	80c	DeMrJeSe	31.8	–
Dana		16⅞xd	1.0	$1.60	MrJeSeDe	27.8	2306
Data General		420p	5.8	–	–	–	–
Dun & Brad		28½	0.9	$2.28	MrJeSeDe	13.2	–
Eaton		36¼	1.3	$2.20	FeMyAuNv	2.2	2410
Echlin		9⅜xd	4.8	70c	JaApJyOc	30.6	3046
FPL		16¼xd	–2.0	$2.44	MrJeSeDe	25.8	–

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	W'k% ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
■Scottish Inv	†	158	1.4	4.4	Feb Jul	281.2	1.6	3853
■ Warrants		24	9.1	–	–	12.2	–	5803
■Scot Mortgage		137	–7	3.9	Jul Dec	494.2	11.5	6094
■Scot National Inc		78xd	—	8.85	Ap.JyOc.Ja	111.8	24.8	3881
■ Cap.		19	11.6	–	–	12.1	–	3860
Stepped Pf		109¾	0.7	6.88	Sep Mar	44.6	24.2	3862
Zero Div Pf		185	–3	–	–	118.1	–	3864
Warrants		3½	—	–	–	0.46	–	3869
Scot Value	‡z	58	–8	1.8	Jan Oct	13.8	1.6	2796
Sec Alliance	†	1050	0.8	35.9	Apr Oct	288.3	24.2	3874
Second Market	s	230	1.3	1.5	May	128.3	6.4	3876
■Sec Tst Scot		63	0.8	8.25	Jul Dec	101.8	11.5	3877
Select Assets		79	—	0.83	Apr	19.8	24.2	5085
Eq Ind Ser1		187	—	4.25	JaApJlOc	18.9	10.7	4803
Eq Ind Ser8		187	—	4.25	JaApJlOc	22.7	13.7	5085
Shires		202	1.0	18.4	ApJyOcJa	58.7	15.6	4814
11pc Cv Ln '03/04		188xd	–2.6	011%	Sep Mar	22.7	24.8	4012
Stam Select		58xd	—	0.25	Sep	10.2	24.8	1387
Warrants		10	—	–	–	0.50	–	1379
■Smaller Cos		57	–1.5	2.5	Apr Oct	18.1	10.8	3698
Warrants		11	—	–	–	0.33	–	3699
Somerset Tst		122	—	–	–	1.22	–	2237
■Sphere Inc	N	18	—	3.1	MyAgNvFe	12.1	27.7	4278
Zero Div Pf		80¼	1.5	–	–	78.3	–	5227
Sumit		31	—	1.26	May	2.22	9.3	4132
■TR City of Lon		184½	2.0	4.76	FeMyAgNv	199.8	10.8	4271
■TR Euro Growth		72	—	1.35	Oct	26.4	16.9	4889
Ptg Sub		34	–2.9	1.35	Oct	1.23	16.9	–
■TR Far East Inc	M	28xd	1.2	4.4	ApJyOcJa	38.5	24.8	4268
Warrants		14	–8.7	–	–	1.29	–	–
TR High Inc		95	1.1	5.8	MrJyOcJa	28.5	13.7	2887
Sub	g	22	–2.2	1.6	Jul	8.63	13.7	2936
■TR Pacific	s	72	–1.4	8.25	Apr	48.2	9.3	4581
■TR Prop		16	—	1.45	Jan Jul	42.7	15.6	4282
■TR Smaller		185	0.5	3.7	Mar Sep	107.1	10.8	4285
■TR Technology		22	12.8	1.75	Aug	9.68	13.7	4282
Stepped Pf		98¾	–5	6.51	Dec Jun	43.5	11.5	4989
Zero Pf		174	—	–	–	134.8	–	4988
■Temple Bar	N	232	1.3	13.0	Sep Mar	132.7	10.8	4191
6pc Cv Ln 2002		£115½	–8	06%	Jan Aug	25.4	27.7	4190
Templeton Em		179	–6	2.5	Sep	83.9	10.8	4896
Warrants		88	–4.2	–	–	6.73	–	–
1pc Cv Ln 2001		£179	–6	01%	Apr Oct	–	23.3	4920
Thompson Clive		121	–8	3.8	Jun	15.4	6.4	–
■Thornton Asian		83	1.9	0.5	Jun	83.8	11.5	5942
Warrants		5	—	–	–	1.90	–	5194
Thornton Pan Euro		24	—	1.8	May	3.89	6.4	2128
Warrants		1¼	—	–	–	0.04	–	–
Throg Deal Inc		79	—	8.75	NvApJlJa	87.8	15.6	4219
Cap		318	–1.0	–	–	10.8	–	4218
■Throg 1000 Smlr Cos		87	—	–	–	31.9	9.3	5806
■Throgmorton Tst		48½	—	2.3	Aug Apr	114.3	27.7	4221
Warrants		8½	—	–	–	1.41	–	4222
Tor Inc	K	325	—	48.8	JaMyJyDe	12.2	29.6	4257
Cap		813	2.6	3.8	Nov	12.9	30.9	4256
Trib Inv Tst		584	—	1.8	Nov	2.28	16.9	1531
Trust of Prop		41	—	1.43	Apr	2.88	24.2	4315
Turkey Trust	s	123	–8	1.8	Feb	17.8	13.1	3289
Warrants		31	—	–	–	1.11	–	2176
■USDC		138	1.5	4.25	Apr Oct	58.8	23.3	4965
US Smaller Cos	s	84	—	0.23	Oct	17.8	–	4082
Warrants		38	—	–	–	1.29	–	4870
■Wales & Inc	K	64½	0.8	3.6	Jan Jul	28.8	1.6	4886
Venturi		8	—	–	–	0.88	–	–
Inc		24	—	3.88	May Nov	2.84	27.4	–
Cap Indexed		142	—	–	–	2.84	–	–

MEDIA - Cont.

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividend paid	Last xd	City line
■Utd News		375	1.9	21.8	1.2	Nov Jun	27.4	4376
◆VTR		46	—	3.4	1.2	May Dec	27.4	4591
■WPP		32	–8.6	–	–	–	6.8	4844
■ Warrants		7	—	–	–	–	–	4857
Watmoughs		433	0.7	10.5	1.7	Nov May	23.3	4442
Yorkshire Tyne-T		148	–7	12.8	2.3	Mar Jul	1.6	4552

MERCHANT BANKS

	Notes	Price	W'k% ch'nge	Div net	Div cov	Dividend paid	Last xd	City line
■Ansbacher (H)		31	19.2	0.81	–	May	23.3	1684
Barings 8pc Cm 2nd Prf.		85	2.1	8%	–	June Dec	15.6	–
9¼ pc Non-Cum Prf.		117½	1.3	9¼%	–	Jun Jul	15.6	1421
Brown Shipley		53	—	–	–	–	7'91	1583
Close Bros	†	288	–1.0	8.8	2.5	Apr Oct	23.3	2188
■Hambros		205	–1.0	13.8	1.8	Jan Aug	15.6	2812
7½pc Cv Pf		108½	–2.9	7½%	–	Apr Oct	24.2	4388
Joseph (L)		318	—	16.85	–	Jan Sep	10.8	3080
■Kleinwort Benson		235	2.2	18.0	0.8	May Oct	10.8	3102
■Rea Bros		26xd	2.0	8.5	0.1	May Oct	24.8	3785
Schroders		1188	—	18.8	4.8	Nov May	23.3	3839
N/V		970	—	18.8	4.8	May Nov	23.3	3841
■Singer & Fried		38	5.9	2.5	1.8	Nov May	23.3	4828
■Warburg (SG)		428	4.9	18.8	2.7	Jul Dec	1.8	4425
8pc Cv Pf		144xd	4.3	6%	–	Mar Sep	24.8	4426
Wintrust		210xd	–1.4	9.3	2.8	Oct Mar	24.8	4524

METALS & METAL FORMING

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividend paid	Last xd	City line
■ASW		62	1.6	9.0	0.6	May Nov	23.3	5064
◆Apollo Metals		103	–8.7	3.45	2.8	Jan Jul	1.6	1468
Ash & Lacy		138	—	8.4	2.0	Nov May	6.4	1663
■Barrett (H)	‡	12	—	2.0	0.4	Feb	20.5	1767
Billam (J)		118	—	4.38	4.1	Oct May	23.3	1828
■Brit Steel		49½	—	4.5	0.4	Aug Jan	13.7	3311
■CI		21	—	2.05	1.3	Jul Jan	11.5	2138
Castings		181	—	4.87	3.5	Jan Aug	1.6	2878
Chamber & Hill		186	—	8.8	2.4	Jul Dec	15.6	2180
Cohen (A)		325	—	10.0	–	Feb Aug	29.6	2181
Cook (Wm)		168xd	2.6	10.0	2.4	Jan Oct	24.8	2232
■Cooper (F)		28	—	4.0	0.6	Jul Feb	1.6	2285
Downiebrae		27	—	8.5	3.6	Jul	11.5	2370
■Firth (GM)	‡	18	–4.8	1.8	–	Apr Oct	25.2	2579
Garton		105	–8.8	7.8	–	Jul Dec	11.5	2659
■Glynwed Intl		218	7.8	11.85	0.8	Jul Dec	11.5	2711
■Johnson & Firth		55	—	3.8	1.2	Jan Jul	15.6	3045
■Johnson Matthey		381	–8	9.85	2.2	Feb Aug	15.6	3052
■Lee (A)		74	–5.1	6.8	0.5	Feb Aug	29.6	3145
Linread		73	—	3.5	1.8	Oct May	6.4	3167
Manganese Bze		73	—	1.8	1.2	Dec	25.11	3269
◆Meltest		127	—	8.4	◆	Aug Dec	27.4	3362
◆Morris Ashby		123	—	4.7	2.2	Mar Oct	27.7	4831
Radiant Metal		18	–11.1	–	–	–	8'89	3754
Richards Grp		80	—	4.4	2.7	Jan Nov	27.4	3821
■Saville Gordon		34	3.0	2.2	◆	Apr Oct	24.2	3927
◆Stainless Metal		22	—	–	–	–	25.2	4091
Sycamore		18	—	–	–	–	–	4133
Thyssen DM		1208	–2.7	029%	–	Mar	26.3	4225
◆Tinsley (Eliza)		57xd	—	5.2	1.4	Feb Oct	24.8	4235
■Triplex Lloyd		137	–2.1	7.8	1.7	Feb Sep	27.7	4312
Utd Industries		7½	7.1	–	–	–	7'91	4869

Henlo Gold C$	£41¼	3.1	020c	–	Dec Jan	8.11	–
■‡‡Hernia West IE	38	9.1	–	–	–	–	–
■‡‡Kells Minls IE	18	—	–	–	–	–	3741
■◆Kenmare	3¼	44.4	–	–	–	–	1453
Melinga Res	12	–25.0	–	–	–	–	–
‡‡Navan Res IE	23½	—	–	–	–	–	1185
North West Expl A$	3	—	–	–	–	–	–
Oryx Gold S	54	—	–	–	–	–	3886
Plateau	3W	—	–	–	–	–	3487
■RTZ	511	2.2	18.5	1.7	Dec Jul	23.3	3881
◆Vizcaya	1¼	—	–	–	–	–	4183
◆Western & Pac C$	18½	–3.6	–	–	–	–	–

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Subject to local tax.
z Dividend includes a special payment: Cover does not apply to special payment.
E Auction basis
F Dividend based on prospectus or other official estimates for 1990-91.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1991.
K Dividend based on prospectus or other official estimates for 1992-93
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1991-92.
N Dividend based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service:

Addition. Quality Care Homes (Section: Health & Household)

Deletions: Aberfoyle (Miscellaneous), Homestake Mining (Mines/Miscellaneous), Sceptre Resources (Oil & Gas) and Young Group (Mines/Miscellaneous).

4 pm close September 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11⅞	AAR Corp	0.48	3.9	19	34	12⅛	12⅛	12⅜	
28	18	A L Labs A	0.18	0.8	81	131	22⅞	22⅛	22⅛	-⅛
68⅛	52⅝	AMP Inc	1.52	2.7	22	997	56⅛	55⅛	55⅛	-⅛
80¼	55	AMR			204	122	58⅞	56⅞	57⅛	-1¼
2⅜	1⅛	ARX			18	23	1⅜	1⅜	1⅜	
53½	35⅜	ASA	2.00	5.6	23	196	36⅝	35⅞	36	-⅛
34¼	26⅛	Abbott Lab	0.60	1.9	22	3013	31⅛	30⅛	31	+⅛
13⅞	11⅞	Abitibi Pr	0.50	4.0	6	41	12⅜	12⅛	12⅜	+⅛
11⅝	10⅛	ACM Gvt In x	0.96	8.6		221	11⅛	11⅛	11⅛	+[illegible]
10⅜	9⅛	ACM GvOpp x	0.79	8.1		93	9⅜	9¼	9⅜	+[illegible]
9½	8½	ACM Gvt Sp x	0.89	9.5		115	u9½	9⅜	9⅜	
11⅛	10⅛	ACM Gvt Se x	1.08	9.6		989	u11⅛	11	11⅛	+⅛
10⅜	8⅝	ACM Man x	1.08	10.5		387	u10⅜	10⅛	10⅛	+0.98
12⅞	10½	ACM Managd x	0.99	9.1		133	10⅞	10¾	10⅞	+1
11¼	4¼	Acme Cleve	0.40	6.0	12	59	6⅞	6⅝	6⅝	-⅛
6¼	4⅛	Acme Elect			38	17	5	4⅞	4⅞	-⅛
33¼	17⅛	Acuson			11	1221	17⅛	d16½	16½	-⅜
19½	18⅛	Adams Expr	0.48	2.5	0	84	19⅛	19¼	19¼	
49⅛	29½	Ad Micro x	3.00	7.9		120	38⅛	37⅞	37⅞	-½
21½	7½	Ad Micro P	3.00	27.0		46000	11⅛	10⅞	11⅛	-⅜
9⅛	4⅞	Advest Grp	0.16	2.8	71	113	5⅞	5⅝	5⅞	
38¼	33	Aegon ADR x	1.68	4.2	7	77	u40⅛	39⅝	40⅛	+⅜
47	38¼	Aetna Lf	2.76	7.1	10	386	39⅛	38⅞	39⅛	-⅛
12⅞	6⅞	Ahl A	0.24	2.1	13	242	11⅝	11⅛	11½	
34	24	Aflac	0.44	1.3	16	245	32⅞	32⅜	32⅞	+⅛
19⅛	14⅞	Ahmanson	0.88	5.9		62253	15⅛	d14⅞	14⅞	-⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
55	50½	XeroxA.125 s				11	53¾	53¼	54⅛	+1⅛
32⅛	24⅞	Xtra 1.94	1.94	6.2		40	31½	31½	31½	
45⅞	28½	Xtra Corp	0.80	1.8	13	49	43½	43¼	43½	+⅛
29¾	25¼	Yankee Egy r	1.68	5.8	19	12	u29⅞	29⅝	29¾	
1½	½	Zapata				25	416	1	1	1
11⅛	6⅞	ZenithElec				4	666	6¾	6⅝	6¾
19½	14½	Zenith Nat	1.00	5.7	8	546	17⅝	17½	17½	−⅛
7½	6	Zenix Inc	0.82	11.5		209	7⅛	7	7⅛	+⅛
13⅞	10	Zero Corp	0.40	3.3	15	784	12¼	12	12	−⅛
32	27⅛	Zurn Ind	0.88	2.9	33	84	30⅞	30⅝	30⅝	−¼
14⅛	12	Zweig Fund	1.12	8.7		228	12⅞	12¾	12⅞	
11	9½	Zweig Totl x	0.96	9.3		552	10⅜	10¼	10⅜	+1/16

Price data supplied by Telekurs

†- Latest prices available due to fire near exchange. Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full

AMEX COMPOSITE PRICES

10:15 am †September 4

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Perini	0.80	21	15	11½	11¼	11½	
Pet HiSP	1.14	13	14	16¼	16¼	16¼	
Phil LD	0.21	16	84	35½	35¼	35½	+¼
Pitway A x	1.10	15	10	30⅞	30⅞	31⅛	+1/32

NASDAQ NATIONAL MARKET

4 pm close September 4

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Wolv Expl		0	14	3/16	⅛	⅛	
WPP Group	1.11	1	239	1⅛	d1 1/16	1 1/16	+1/16
Wyman-Gdn	0.40	4	54	5⅛	4⅞	4⅞	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		19	8380	18	17½	17⅝	+⅛
Xoma Corp		6	2696	11¼	d10⅞	11⅛	+⅛
Yellow Fr	0.94	22	704	26⅝	26	26⅛	−½
York Rsch		7	2899	7⅛	6⅞	7 1/16	+⅛
ZionsUtah	1.44	10	110	55¼	54	54⅛	−⅛

MONDAY INTERVIEW

Second fiddle's new tune

Shimon Peres, the Israeli foreign minister, talks to **Hugh Carnegy**

Shimon Peres, once an ebullient prime minister but now forced to play second fiddle to his old rival, Yitzhak Rabin, wears a rather stern face in public these days.

But as he talks in his office in the barrack-like foreign ministry in Jerusalem, the subdued tone suddenly gives way to a smile, as he hits on a metaphor to explain his objection to Palestinian demands at the Middle East peace talks in Washington.

The Palestinian delegation is demanding that self-government arrangements in the West Bank and Gaza currently under discussion amount as nearly as possible to full independence. "They want a child without a pregnancy," he declares. "That's a little hard to achieve."

The smile evaporates at the suggestion that, as far as the Palestinians are concerned Israel seems intent on ensuring they do not even manage to conceive.

"Look, we are doing things which are tangible and real. They can see by the criticism and opposition that exists in Israel that we are serious."

If the foreign minister is irritated, it is probably because the Labour-led coalition has been somewhat disappointed by the Palestinians at the Washington talks. Just as the Palestinians had hoped for greater concessions from Mr Rabin's government, which ousted the unyielding Likud administration of Yitzhak Shamir in June's Israeli elections, so the new coalition had thought the Palestinians would be rather more co-operative than they have proved.

Still, Mr Peres himself expressed some satisfaction with the way the peace talks were progressing when they broke up last week for a 10-day recess. A breakthrough, both with the Palestinians and with Israel's other great foe, Syria, may yet materialise over the coming months.

The real reason Shimon Peres appears a little morose, his friends say, is that he has not fully come to terms with being number two in the government. For Mr Peres, Labour's general election victory – which banished the Likud into opposition for the first time in 15 years – had a bitter taste.

A few months before, Mr Rabin had been elected party leader, ousting Mr Peres from the position he had held since 1977. The man who for so long led the fight against the Likud found himself out of the spotlight when victory finally came.

But Mr Peres is a resilient politician. Close associates say he has not given up hope of recapturing the party leadership. So he campaigned energetically for Rabin during the election. He also swallowed his pride when taking the foreign minister's post, accepting that Mr Rabin would run the core of the peace talks – the bilateral negotiations with the Palestinians, Jordan, Syria and Lebanon.

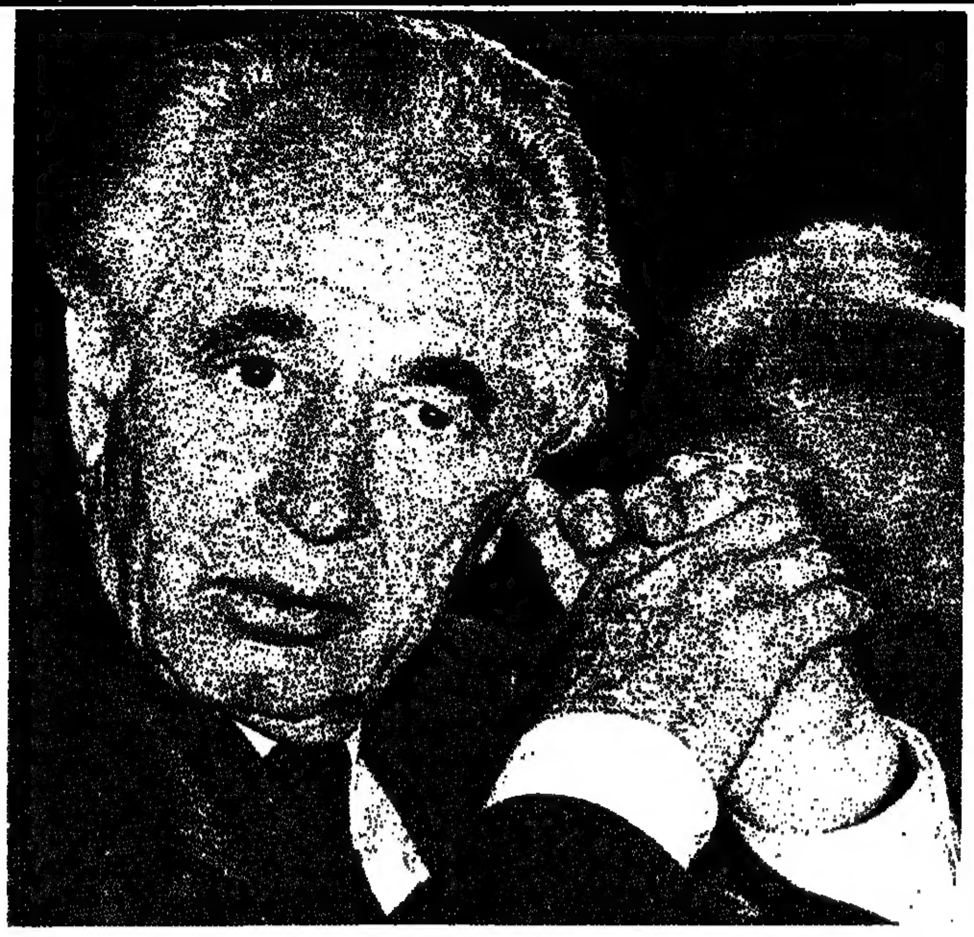
Mr Peres is in charge of the multilateral talks between the various parties covering arms control, economic co-operation, water, the environment and refugees. Nevertheless, Mr Peres has backed the prime minister fully over the proposals made to the Palestinians in Washington for the self-government arrangements.

These arrangements would have effect for five years while negotiations are held on a final agreement on the West Bank and Gaza. Israel cannot at this stage agree to the legislative powers sought by the Palestinians because, Mr Peres says, this would pre-empt the negotiations for a final settlement which are not due to start until three years after the "interim" stage takes effect.

Neither he nor Mr Rabin has ever conceded the idea of a fully independent Palestinian state in the occupied territories. They talk in terms of some sort of federation with Jordan. But from Mr Peres's viewpoint, Labour's commitment to a permanent settlement based on ceding territory – the "land for peace" formula enshrined in UN resolutions 242 and 338 which underpin the peace talks – means that Palestinian suspicions of a hidden Israeli agenda are unfounded.

A longstanding Palestinian fear is that the Israelis intend to make the interim agreement the basis of a final settlement. This Mr Peres denies. "It doesn't have a permanent nature. This should be a sort of trial period which will give all of us time to reach a permanent solution."

No doubt Mr Peres will be pressed on these issues when he meets British and French leaders this week. He will in turn urge them to press the Arab side to be more flexible in Washington. But Mr Peres says European countries – both individually and collectively through the EC – can play their most active role in the multilateral rather than the bilateral negotiations.



'They want a child without a pregnancy'

Mr Peres acknowledges that progress in the five strands of multilateral talks – due to resume this month – will depend largely on progress in the bilateral talks. But he believes it is in the multilateral sphere that "a different Middle East" can really be shaped.

It is appropriate that Shimon Peres should head Israel's effort in the multilateral negotiations. He has long had a vision of how, given a measure of peace, the Middle East as a whole might prosper through building regional co-operation in vital areas such as arms control, water and trade.

He looks to Europe, with its experience of building the Common Market, for help by giving advice on the development and the founding of the necessary institutions. In return, he is prepared to let the EC play an enhanced role in the various multilateral forums – for example on arms control. Mr Shamir rejected a greater European role on the grounds that the community was biased towards the Arabs.

Arms control is very difficult and Mr Peres has no illusions. It will have to be done "gradually, in small steps", he says. But he has an altogether more expansive vision when it comes to regional economic co-operation and sharing resources such as water.

"We are united by the lack of water. We have to organise the assembly, the distribution and the production of water because, as you know, the rains do not pass through customs and the rivers do not follow frontiers."

Peres advocates a Benelux-like economic union between Israel, Jordan and the Palestinians and, beyond that, regional arrangements for open trade. The benefits to Israel, with its strength in technology, of being able to trade with its hitherto inaccessible Arab neighbours would be great.

But Mr Peres says there would be advantages for all sides. "The whole region of the Middle East is not only a big market, not for the Arabs, not for us. We think by organising a real market with open borders and free commerce the Arabs stand a chance to raise their standard of living."

For Mr Peres, this is in Israel's interests. "I believe the economic standard of living decides the political standard of behaviour. When people are poor they are hostile and desperate. There is no answer to [Islamic] fundamentalism by writing a new Koran. You can do it by enabling people to read it differently."

This kind of vision of a Middle East transformed is alluring, but it seems a distant dream. "We can go very far, because we start from a very low point," responds Mr Peres.

He acknowledges that his government's motive for peace is also driven by a more chilling vision in a region which spends $50bn a year on arms.

Since coming to power, Mr Rabin has frequently stated that the disappearance of Soviet backing for Israel's Arab enemies and Iraq's defeat in the Gulf war have opened a "window of opportunity" for peace in the region. But he also says that within a few years circumstances could easily change as countries such as Iran and Syria – and perhaps once more Iraq – acquire big arsenals of advanced non-conventional weaponry.

Israel, which already possesses nuclear arms, is itself honing its weapons capability. But it fears it will find it difficult to maintain its technological lead. It is this which is seen by Mr Rabin and Mr Peres as the long-term threat to Israel's existence, not the dispute with the Palestinians.

They do not share the Likud's ideological commitment to keeping the West Bank and Gaza. And so to them, the Palestinian issue, so often regarded as the core of the conflict in the Middle East, has come to be seen as an awkward obstacle which must be resolved in order to help defuse a much greater threat.

"Today the heart of the conflict is the attempt to nuclearise the Middle East," says Mr Peres. "How to save the Middle East from that conflict is the major issue. We have to have peace before the skies are filled with non-conventional missiles which threaten us all."

PERSONAL FILE

1923 Born Shimon Persky, Vishneva, Poland.
1934 Immigrated to British Mandatory Palestine. Education included Harvard University.
1952 Director-general, Ministry of Defence.
1959 Deputy defence minister.
1974 Defence minister.
1977-92 Labour party leader.
1984 Prime minister.
1986 Foreign minister.
1988-90 Finance minister.
1992 Foreign minister.

Why Hayek speaks for everyone

MICHAEL PROWSE on America

Mr Jack Kemp, the leading conservative in President George Bush's cabinet, once remarked that his political outlook had been transformed by reading Friedrich Hayek, the Austrian-born economist. In Britain, Lord Joseph and many others have paid similar tributes. Hayek's close association with right-wing politicians is understandable but in some ways unfortunate. He never saw himself as a conservative, and his books are not the exclusive property of rightwingers.

Hayek, who died this summer, ought to have broad appeal. He articulated a compelling vision of the way society (a term he hated) works. In an ever more specialised age, his intellectual breadth enabled him to make valuable connections between different disciplines, including economics, psychology, politics and biology. You can gain insights from him without having to endorse his more extreme conclusions. As a bonus, he is great fun to read – if you like rigour and don't object to crankiness now and again.

The easiest way into Hayek is through his last book, The Fatal Conceit (Routledge, 1988). This is not a substitute for earlier classics such as The Constitution of Liberty (1960), but it provides a highly readable summary of many of his central themes. One was the parallel he drew between economic and biological evolution. People once thought the complexity of the natural world proved the existence of a creator. Darwin showed how complex creatures could evolve from simpler organisms.

Hayek saw himself performing the same role in social science. He spent much of his life explaining that the "extended order of human co-operation" – his phrase for the complex of rules and institutions underlying capitalism – evolved spontaneously. As in biology, order was achieved without a central guiding authority.

The hostility of many intellectuals to capitalism, Hayek believed, reflected a misconception of its character. Academics learn to construct solutions to problems. If you believe the existing (obviously flawed) economic and social system was consciously created, your natural response is to try to improve on it.

In Hayek's view, the failure of new constructs such as socialism was inevitable because no group of people had ever possessed the knowledge needed consciously to design the existing system, let alone improve on it. The "extended order" existed only because societies that happened to have adopted rules that allowed markets to flourish grew wealthier and more populous than those that did not.

Hayek also strove to explain why free markets are sometimes seen as immoral. His answer was that mankind developed not as sovereign individuals but as members of clans. In the search for food and shelter, solidarity and altruism were crucial virtues; individuals survived by putting the group first.

Today, people contribute mainly through their specialised functions in labour markets and by respecting abstract rules, such as property and wage contracts. If we all tried to treat our neighbours as ourselves, the system would break down. The trouble is that caring people find abstract rules unsatisfying. Hence many "good" people instinctively dislike capitalism despite its proven ability to raise living standards. Of course, those who don't empathise with others (and would have been a menace in pre-industrial clans) have no such reservations.

Opposition to the extended order, Hayek believed, also reflected a misunderstanding of the nature of freedom. Behind socialism lay the Romantic belief (originating in the writing of Rousseau) that man has to throw off social shackles, including institutions such as property, if he is to be properly free. Hayek saw more clearly than most that freedom is a matter of choosing the right kind of constraints. There are only two options: abstract laws which constrain everybody equally or arbitrary coercion by some group of one's fellows. He felt abstract rules were preferable because they created a "personal space" – a realm in which one could act without fear of sanction.

All of these insights are important and will probably be quite uncontroversial within a few decades. But they leave plenty of space for disagreement. For example, suppose we concede that Hayek is right to characterise capitalism as a spontaneous self-ordering process. This does not mean that 19th century capitalism has not been improved by the ad hoc evolutionary development of welfare states. Germany has moved further in this direction than the US and many would say it has gained thereby.

Suppose we agree to abstract laws; that does not prevent supposedly independent judges subverting them. And Hayek should not be allowed to imply that an ingenious explanation of why we find markets heartless can absolve us of our responsibility to help the less fortunate. I can see no objection, even on Hayek's principles, to abstract rules mandating that the wealthy pay higher taxes than the poor. A left-of-centre Hayekian is not a contradiction in terms.

I have only scratched Hayek's surface. I have not discussed his prescience in the 1940s and 1950s, in identifying the flaws in communism and also in predicting the stagflationary woes of the western democracies. He was a cold but brilliant fish. If you have postponed reading him because you regard him as a political extremist, my advice is to think again. There are few more challenging 20th-century thinkers.

Trouble for the treaty

IAN DAVIDSON on Europe

With only two weeks to go before the French referendum, it is clear that the Maastricht treaty is in serious, possibly terminal, trouble. When the day arrives, perhaps France will vote Yes. But the recent collapse in popular support for the treaty suggests the result could go either way.

This possibility is so seismic that we need to rethink the political implications of the treaty, and what is required to give it operational credibility. If the French vote No, the treaty is dead; but if they vote Yes by only a narrow margin, the treaty will still be in trouble, both in France and in the rest of Europe, because French support will be in doubt.

It is not really useful to try to explain the shift in French sentiment mainly in terms of national factors. Obviously, there are such factors. But we are probably facing a general and systemic problem, which goes beyond the unpopularity of President François Mitterrand, let alone the convergent agitations of the National Front, the Communists and the unreconstructed Gaullists.

When the Danes voted No to Maastricht, the experts were astonished, but they quickly ran up a Danish explanation: the Danes have never been really European. When victorious ("game, set and match") John Major started running away from the treaty, the experts were again stunned, but they soon came up with a British explanation: the British have never been really European.

But in France the polls have for many years shown a large majority of general support for Europe. So if aversion to Maastricht has started spreading to France (not to mention to Germany as well), we are compelled to suspect that the problem is general, not specific.

Some people cite an unfavourable constellation of events in Europe. The Community has yet to make any beneficial impact on the Yugoslav civil war, the disintegration of the ex-Soviet Union, the cost of German unification, high rates of interest, low rates of economic growth, and high and rising levels of unemployment. It is not surprising, perhaps, that the Community and its future ambitions fail to inspire confidence.

This kind of explanation implies a deep frivolity on the part of the governments which negotiated the Maastricht treaty. It is obviously more difficult to launch monetary union in the depths of a recession; did they think it would ever be easy? Did they think they could have monetary union without confronting the issue of economic growth? Did they think they could sign up for a liberal-market economic policy without taking the political consequences?

Nationalists say that Europe's record in Yugoslavia is proof positive that there can be no common European foreign policy. Not so; it is proof positive that a common foreign policy does not come cheap, let alone free; it does not prove that there is any alternative. The British government is manifestly determined that there shall be no common foreign policy; the Danish government has no desire for a common defence policy; yet they both signed the treaty, and have no alternatives.

The heart of the matter is that there is a deep mismatch between the far-reaching policy ambitions of the Maastricht treaty and the absence of corresponding reforms of national democratic political processes. Maastricht calls for colossal poolings of sovereignty in economic and monetary policy, as well as in foreign and defence policy. Those poolings of sovereignty simply cannot be counted on to be effective without the continuous and whole-hearted support of the electorate. But governments have largely disregarded the voters.

This problem is usually called the Community's "democratic deficit", meaning that there should be more powers for the European Parliament. This is just Euro-cant. The reality is that the EC is a community of democratic nation states. All significant strategic choices in this community will have to be mediated through the democratic systems of these nation states for many years to come; and every extra pooling of national sovereignty must be worked through the national democratic processes.

Yet most of the 12 governments appear to think they can put the treaty into practice without further reference to the voters; all of them appear to think they can dispense with reform of their domestic democratic arrangements.

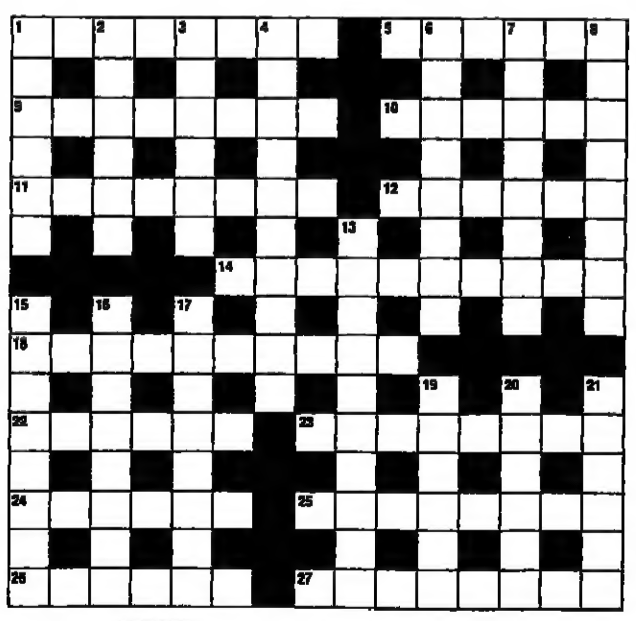
Moreover, a Maastricht-type programme requires the kind of cross-party consent which would survive electoral swings. The Danes voted No by a little more than 50 per cent; does anyone think they could have implemented Maastricht with an equally narrow Yes vote? Mr Jacques Chirac, Gaullist leader, has at last committed himself to a Yes; but half his party is hostile to Maastricht, and it is likely to lead a conservative victory in March's parliamentary elections.

The most acute internal contradiction is in Britain, of course. Mr Major has made "subsidiarity" his hobby horse, but there are just two problems.

In Europe, subsidiarity implies mutual trust, but the British do not trust foreigners; at home, subsidiarity implies local democracy, but Mr Major rejects any democratic reform of Britain's monolithic centralised state. Whatever happens in France, the arithmetic of the Commons will make it very difficult for Mr Major to ratify the Maastricht treaty; the conflict between the political requirements of the treaty and the nature of the British state will make it impossible for him to implement it.

CROSSWORD

No.7,944 Set by VIXEN



ACROSS

1 For wear after a tug-of-war? (8)
5 Goal protest (6)
9 Cross note about people leading a wild life (8)
10 A designer exhibiting most peculiar traits (6)
11 Pub where a parasite holds a fellow back (3-5)
12 A proposal about the fringe in the south-east (6)
14 Judicial term for a disquieting experience (6,4)
18 Secret communication engendering trust (10)
22 Through containing revolution get personal protection (6)
23 Drove off, disgusted (8)
24 Jack, a painter, reversed the mount (6)
25 Suppress curious outside left (8)
26 To falter is not usual in the German (6)
27 Beast keeping capture dark (8)

DOWN

1 Collier, the sign-writer (6)
2 Doesn't eat greenstuff (6)
3 Animal with firm back bearing a great deal (6)
4 Living in comfort, yet terse as can be (4,6)
6 Where one may see a flighty creature put behind bars (4-4)
7 The reason for general ill-feeling (8)
8 Casual shirt badly treated and showing signs of wear (8)
13 Gunnery school? (10)
15 Cover for a strike-breaker turning up far from cheerful (8)
16 Might be drawn out – so inconvenient (8)
17 There are many unsatisfactory people currently employed (8)
19 Stop engineers going overseas (6)
20 Promise quietly to settle (6)
21 Some get ahead here and hold on (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 19.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.35	19.64	22.13
0100	17.70	19.39	21.89
0130	17.69	17.70	17.70
0200	17.56	19.39	21.93
0230	17.58	19.39	21.93
0300	17.58	17.70	17.70
0330	17.66	17.70	17.70
0400	17.96	17.70	17.70
0430	17.56	17.70	17.70
0500	17.56	17.70	17.70
0530	20.65	17.45	17.45
0600	17.69	17.45	17.45
0630	20.65	17.44	17.44
0700	17.69	17.44	17.44
0730	20.65	17.45	17.45
0800	20.65	17.64	17.64
0830	21.11	20.27	22.78
0900	22.11	20.27	22.78
0930	22.83	22.22	24.79
1000	22.11	20.98	23.52
1030	24.16	24.50	27.15
1100	26.06	24.50	27.14
1130	26.06	26.82	29.63
1200	36.98	27.99	30.72
1230	36.96	27.99	30.70
1300	36.98	27.99	30.70
1330	27.94	27.98	30.74
1400	25.90	24.60	27.15
1430	25.90	22.46	25.04
1500	17.85	20.99	23.52
1530	17.76	20.41	22.94
1600	17.76	17.71	17.71
1630	17.71	20.41	22.92
1700	17.71	20.41	22.92
1730	17.76	20.98	23.52
1800	17.79	20.99	23.53
1830	21.72	20.98	23.52
1900	22.20	22.46	25.04
1930	22.83	22.46	25.04
2000	26.03	20.99	23.52
2030	26.03	22.18	24.75
2100	28.31	23.23	25.83
2130	26.31	27.99	30.72
2200	28.31	27.98	30.72
2230	26.24	27.99	30.74
2300	22.73	27.98	27.99
2330	22.73	17.95	17.95
2400	17.76	17.76	17.76

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
NGC Settlements Limited 1992

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

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0200	17.69	17.70	17.70
0230	17.69	17.70	17.70
0300	17.69	17.70	17.70
0330	12.69	17.64	17.64
0400	17.99	17.64	17.64
0430	17.61	17.64	17.64
0500	17.61	17.58	17.58
0530	17.69	17.61	17.61
0600	17.46	17.61	17.61
0630	20.96	17.56	17.58
0700	22.21	19.96	22.50
0730	23.90	21.87	24.44
0800	23.77	24.65	27.31
0830	26.61	26.24	28.91
0900	27.25	26.90	28.54
0930	28.20	28.07	30.73
1000	28.24	28.06	30.76
1030	28.24	28.09	30.73
1100	27.36	26.95	29.52
1130	27.37	26.96	29.54
1200	27.36	28.13	30.75
1230	27.32	28.12	30.73
1300	27.26	28.06	30.69
1330	25.54	26.89	29.46
1400	26.62	26.97	29.44
1430	24.78	26.24	28.79
1500	24.77	26.02	28.57
1530	24.65	26.70	28.24
1600	24.77	25.26	27.78
1630	24.67	25.22	27.73
1700	26.07	24.78	27.28
1730	26.07	25.22	27.74
1800	26.04	25.22	27.74
1830	24.17	24.85	27.18
1900	21.70	23.58	26.10
1930	22.00	23.04	25.56
2000	22.00	22.36	24.86
2030	26.01	21.87	24.36
2100	26.01	25.11	27.67
2130	27.69	28.09	30.78
2200	23.90	28.09	30.71
2230	22.00	28.09	30.74
2300	22.00	26.11	27.71
2330	17.79	21.87	24.39
2400	17.76	20.20	22.66

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.887/MWh becomes 1.6887p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
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